FEBRUARY 2012

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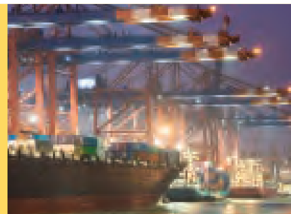
Jerry Kemper, Cheryl Bailey, Brian Turner (from left), Tuesday Morning

2012 U.S. PORT UPDATE:

Full steam ahead 50S

Aggressive investment and expansion continues



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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

Truckload pricing sitting pretty. The most recent edition of The Cass Truckload Linehaul Index from Cass Information Systems and Avondale Partners in December hit 109.2 (baseline=100), which was ahead of November's 108.4 and up 8.6 percent compared to December 2010. "Pricing for truckload carriers remains strong," wrote Avondale managing director Donald Broughton in a research note. "Capacity remains tight and carriers are being more disciplined regarding pricing and capacity additions in this cycle," added Broughton. "Coupled with recent positive economic data we've seen out of the U.S., the index continues to bode well for all of the truckload carriers that are capable of demanding higher pricing."

YRC movin' out. Less-than-truckload (LTL) transportation services provider YRC Worldwide plans to sell the former Akron, Ohio-based headquarters of Roadway, according to a report in the *Akron Beacon Journal*. Once the sale of the building—which will remain open until March 31—is complete, the report said YRCW will still have more than 4,000 employees based in Ohio. "One of the big things we're focused on is moving forward as YRC," said Jeff Rogers, president of YRC, the company's largest subsidiary. "Having the Roadway corporate office open did not make sense, as we have a corporate office in Kansas and a lot of these back office functions [in Akron] are redundant—so it made sense to go ahead and consolidate YRC into one corporate office space."

Global trade stays seasonal. Data from Panjiva, an online search engine with detailed information on global suppliers and manufacturers, showed that U.S.-bound watereborne shipments dipped 7 percent from November to December, reflecting a traditional late-year slow down in global trade. But a deeper look at the numbers shows that the decline in shipments from November to December was better than it was in 2010, when shipments declined by 14 percent—or twice as much. What's more, Panjiva CEO Josh Green said that shipments on an absolute level in December 2011 were up 10 percent annually. "What this reflects is relatively strong ordering for inventories that were needed for the first half of 2012," said Green. "And these orders were placed just before the holiday season and reflected a degree of optimism among purchasing executives about what the first half of 2012 might look like."

Long Beach's big deal. The Port of Long Beach has reached a tentative agreement on a 40-year, $4.6 billion lease with Orient Overseas Container Line (OOCL) for the Middle Harbor property, in what would be the largest deal of its kind for any U.S. seaport. The lease has been agreed to by Hong Kong-based OOCL and its U.S. subsidiaries OOCL, LLC, and Long Beach Container Terminal (LBCT). The port is investing $1.2 billion to develop the new 300-acre-plus Middle Harbor terminal, while OOCL and LBCT will invest approximately $500 million in the latest cargo-handling equipment. The lease would secure a tenant for the Middle Harbor Redevelopment Project, which combines Pier F and Pier E into one state-of-the-art container terminal. LBCT has occupied Pier F since 1986 and will now operate the Middle Harbor Terminal.

Hang a left onto Recovery Road. Speaking at the SMC3 Jump Start 2012 Conference in Atlanta last month, David Walker, former U.S. comptroller general under Presidents George H.W. Bush and Bill Clinton, critiqued the fiscal condition of the United States and lamented the fact that the country is in the middle of the pack globally when it comes to transportation infrastructure. Walker cited a report he wrote for the Carnegie Endowment for International Peace entitled *Road to Recovery: Transforming America's Transportation* as a blueprint for strategies to fund the U.S. transportation system, as well as making transportation more sustainable. In describing the report's highlights, Walker stressed that a real plan is needed to stimulate the economy that does more than re-pave roads. He added that transportation earmarks need to be banned, as they are not subject to

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Management UPDATE

continued

standard planning requirements and are not required to show how benefits outweigh costs and also represent an inefficient use of limited public dollars.

Estimates for retail cargo imports remain steady. The Port Tracker report by the National Retail Federation and Hackett Associates said that import cargo volumes at major U.S.-based container ports were estimated at 14.86 million TEU (twenty-foot equivalent units) for the year, which would represent a 0.7 percent gain over 2010. This is slightly ahead of a December estimate of 14.76 million TEU. The year 2010 ended up at 14.75 million TEU, which was up 16 percent compared to a dismal 2009. The 12.7 million TEU shipped in 2009 was the lowest annual tally since 2003.

Shipping shift. Panama is moving closer to its goal of becoming a logistical hub with the announcement of a major new shift in container vessel deployments this month. The New World Alliance (TNWA), comprising APL, Hyundai Merchant Marine (HMM), and Mitsui OSK Lines (MOL), announced the launch of a new Trans-Atlantic service connecting Europe and the U.K. with the U.S. East Coast and Panama. The Americas Europe Express (AEE) service is TNWA's third dedicated Trans-Atlantic service. It offers multiple weekly sailings from major U.S. and European ports, as well as competitive transit times from Latin America to North Europe via the trans-shipment hub in Panama. The Alliance will deploy high reefer capacity ships with an average effective capacity of 3,200 twenty-foot equivalent units (TEUs).

Ocean carrier puzzle. The final pieces of the Far East-North Europe jigsaw are falling into place following last month's confirmation by UASC that the carrier will expand its cooperation with CSCL and CMA CGM on the trade. According to the Paris-based consultancy Alphaliner, active players in the Far East-North Europe trade have confirmed their respective plans for 2012, although some partnership details are still to be finalized. The Far East-North Europe partnership reshuffle of 2012 will see the most significant carrier re-alignment since 1996-1997, when the last major alliance restructuring took place, said an Alphaliner analysts. By the end of June 2012, the new network configurations of the various carrier alliances should be fully implemented.

Air cargo's most critical role. Tony Tyler, director general and CEO of the International Air Transport Association (IATA), noted that this year the story of aviation's importance is even more compelling as governments around the world seek solutions to economic uncertainty. Economic growth is the only durable solution, said Tyler, and aviation can be a catalyst for that growth. But that depends on governments allowing airlines to get on with the business of providing global connectivity. Tyler told IATA members: "The New Year's resolution for every government with respect to aviation should be to stop over-taxation or mis-regulation of this vital economic driver." IATA is estimating the airline industry will make a collective profit of $6.9 billion in 2011 for a net margin of 1.2 percent. IATA forecasts that this will fall to $3.5 billion in 2012 (0.6 percent net margin).

2011 was a very good year. California's exporters turned in another strong performance in November, marking the 25th consecutive month in which the state's merchandise export trade increased on a year-over-year basis. The value of goods shipped abroad by California businesses in November reached $14.07 billion, a nominal gain of 12.7 percent over the $12.49 billion reported in November 2010, according to an analysis by Beacon Economics of foreign trade data released by the U.S. Commerce Department. Total U.S. merchandise exports were up 12.1 percent over the same period. California's exports of manufactured goods edged up 9.6 percent to $8.57 billion, while non-manufactured exports (chiefly raw materials and agricultural products) were up 16.3 percent to $2.14 billion. □

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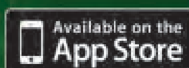

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Tuesday Morning shifts modes

The retailer's transformational best practice just so happens to be a move back to the rails in order to cope with growing truck capacity concerns—and it did so with the help of its trucking partner. **24**

Cover Photography: Jennifer Boomer/Getty Images

Left to right: Jerry Kemper, Cheryl Bailey, Brian Turner, Tuesday Morning

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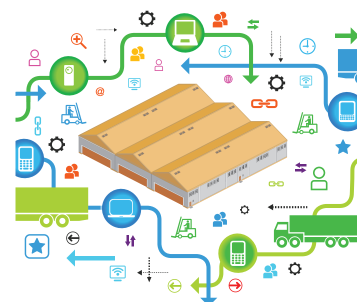

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SPECIAL REPORT

2012 U.S. PORT UPDATE:

Full steam ahead

The Panama Canal expansion isn't the only factor driving infrastructure improvement efforts. Count population growth, increased exports, new trade agreements, global competition, and shifting trade lanes as other elements pushing aggressive U.S. port investment and expansion. 50S

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- What to expect in terms of rates and capacity across all modes.

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Q1 2012 News RoundUP:

Uncertainty remains

February 29 @ 2:00 p.m. ET

With the continued shifting economic and regulatory landscape, shipper uncertainly continues to rise as we enter 2012. Today, keeping up with the news is important, but understanding how that news will affect your logistics operations is imperative.

During this 30-minute webcast event, Group Editorial Director Michael Levans and Group New Editor Jeff Berman will be joined by leading economic and transportation analysts in a detailed discussion designed to put the latest industry news into context.

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- The top news stories shaping the logistics and transportation landscape
- The unfolding impact of CSA and the HOS ruling

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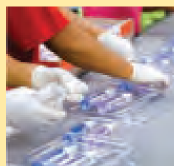

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Answers in unlikely places

THIS MONTH'S COVER STORY on the evolving relationship between Tuesday Morning, an upscale retailer with 865 stores, and its motor carrier partner is an inspirational sign of the times—and contains a theme that we may be hearing repeatedly from other shippers if the economy kicks into high gear.

Back in 2006, the logistics team at Tuesday Morning was just beginning to feel a capacity pinch in its long-haul moves between Port of Long Beach and the retailer's massive 1.7-million-square-foot distribution center (DC) in Farmers Branch, Texas. So, on the suggestion of its motor carrier, Averitt Express, the shipper decided to experiment by substituting over-the-road carriage with rail intermodal on occasion to get a feel for how the service would perform.

And as the retailer's logistics team tells *LM*'s John Schulz, it felt pretty good. The service ran about 58 hours on average, and due to Averitt's evolving relationship with the Union Pacific on the lane, both the shipper and carrier began to realize that service reliability was right on par with truck.

"After a while it was pretty simple," Tuesday Morning's General Manager of Transportation Jerry Kemper tells Schulz. "The rates were better and the capacity was better." But how could the team work rail intermodal into their lean, time-sensitive transportation plan that hinged on the flexibility of trucking?

The retailer is pretty unique in that it services all 865 stores out of the one DC in Farmers Branch, a reality that does, in fact, put delivery timing, storage, and inventory turns at a premium. But after sitting across a table with its motor carrier, the shipper began to see that with better advanced planning, their rail deliveries could be spaced to help relieve any storage concerns without sacrificing service levels.

And, of course, if the rail is caught up or an overseas supplier can't make a deadline, the carrier is able to jump in with expedited over-the-road service to make up any lost time. As Schulz' case study reveals on page 24, Kemper and the team felt comfortable with the multimodal plan and decided to roll it out in full force in March 2010—an implementation that came with a few surprises and some pretty impressive benefits.

If the rail is caught up or an overseas supplier can't make a deadline, the carrier is able to jump in with expedited over-the-road service to make up any lost time.

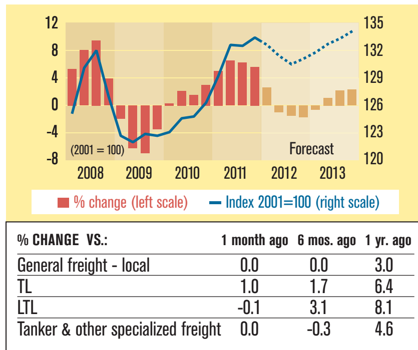
Tuesday Morning is calling this move "transformational," and judging from the cost savings the logistics team has realized, that lofty designation is most certainly deserved. The decision process was driven by foresight, some experimentation, and in what might come as a surprise to many, from the advice of an open-minded trucking partner.

Considering the regulatory, capacity, and general operational challenges our trucking partners continue to face, it wouldn't be going out on a limb to say that savvy shippers may find the answers to some of their biggest questions in unlikely places this year.

Michael A. Levans, Group Editorial Director

Comments? E-mail me at mlevans@ehpub.com

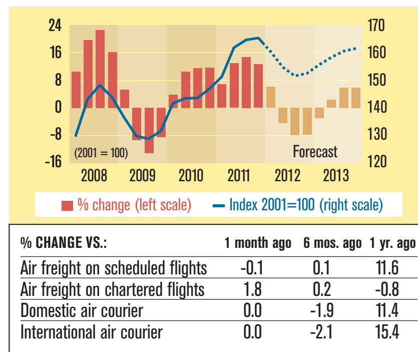
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.0	0.0	3.0
TL	1.0	1.7	6.4
LTL	-0.1	3.1	8.1
Tanker & other specialized freight	0.0	-0.3	4.6

TRUCKING

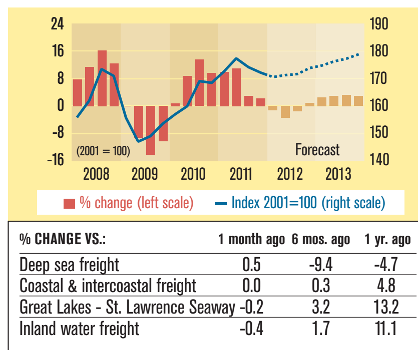
Overall, the trucking industry enjoyed a 0.3% price hike in December 2011. The driving force behind this inflationary burst came from truckload carriers, which again reported a 1% increase in transaction prices on the heels of November's 1% gain. With all 12 months of 2011 data now reported, the annual inflation rate for TL stood at 6.6%; LTL at 8.7%; local general freight at 2.7%; and tanker and other special freight at 4.9%. Assuming the world economy slows down in 2012 due to Europe's debt troubles and the U.S. economy's housing industry remains weak, the forecast for all trucking prices remains down 0.4% in 2012, then up 1.2% in 2013.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Air freight on scheduled flights	-0.1	0.1	11.6
Air freight on chartered flights	1.8	0.2	-0.8
Domestic air courier	0.0	-1.9	11.4
International air courier	0.0	-2.1	15.4

AIR

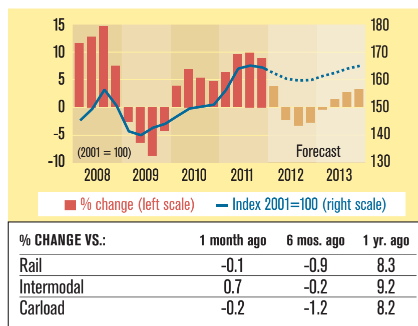
U.S.-owned airliners reported a 0.1% decline in prices for moving freight and mail on scheduled flights in December. That's small solace as shippers flying freight in the belly of U.S. planes endured an 11.8% annual inflation rate for all 12 months of 2011. Alas, that followed a 9.3% annual inflation rate in 2010. Chartered, nonscheduled U.S. planes, meanwhile, increased their airfreight rates only 2.1% in 2011 after a 10.3% hike the year before. The forecast for airfreight service on scheduled flights calls for prices to decline 3.7% in 2012 and increase 2.7% in 2013. But with oil costs and thus fuel surcharges at risk of crisis-driven increases, this base forecast will be subject to careful monitoring.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep sea freight	0.5	-9.4	-4.7
Coastal & intercoastal freight	0.0	0.3	4.8
Great Lakes - St. Lawrence Seaway	-0.2	3.2	13.2
Inland water freight	-0.4	1.7	11.1

WATER

The U.S. water transportation market tells a tale of two inflation trends. Companies that ply inland waterways increased average transaction prices 11.2% in the final quarter of 2011 compared to year-ago prices. Over the same time period, deep sea water transportation prices fell 4.1%. In aggregate, the U.S. water transportation industry netted a 2.2% price hike. The annual inflation rate for all water transportation services stood at 6.4% in 2011, with the inland waterways and deep sea markets reporting 11.3% and 4% annual increases, respectively. The forecast for water transportation calls for a more muted inflation trend ahead with average transaction prices down 1.3% in 2012 and up 2.9% in 2013.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail	-0.1	-0.9	8.3
Intermodal	0.7	-0.2	9.2
Carload	-0.2	-1.2	8.2

RAIL

U.S. rail operators cut their monthly transaction prices in five of the last six months of 2011. Both carload and intermodal rail contributed, though intermodal rail prices did spike up 0.7% in November and 0.7% again in December. Nonetheless, the inflation bubble in the first half of 2011 meant rail industry prices still registered an 8.7% average annual inflation rate in 2011. Though not quite as damaging as 2008's 11.6% price hike, rail service buyers remain nervous. Still, the changing slope of rail price escalation at the end of 2011 provides some possibility for optimism. Taking that leap, we forecast average rail prices to fall 1.2% in 2012, followed by a meager 1.7% increase in 2013.

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

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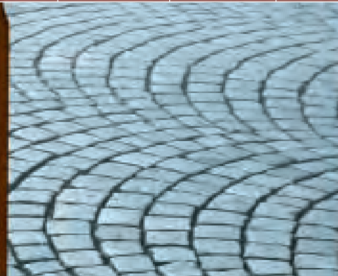

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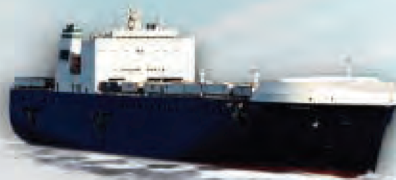

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NEWS & ANALYSIS

LM READER SURVEY

Shippers now adjusting freight budgets to match fuel increases

65 percent of responding shippers expect to pay higher fuel surcharges in the coming months, with 74 percent planning on raising budgets to cover the cost.

By Jeff Berman, Group News Editor

FRAMINGHAM, Mass.—In the freight transportation world, one of the most predictable elements is the unpredictable nature of fuel prices—and that's certainly the case as we roll into 2012.

Diesel has been below the $4 per gallon mark since November, and prices have been trending slightly downward; however, shippers are hardly taking comfort. This fact was made clear in the results of a recent Peerless Research Group (PRG) survey of roughly 345 *Logistics Management* (*LM*) readers.

According to the survey's results, 38 percent of respondents indicated that their average fuel surcharges were more than 20 percent above base rates, with 12 percent saying they were 16 percent to 20 percent higher. Another 16 percent reported that they were in the 6 percent to 15 percent range, with 12 percent stating that their average fuel surcharges were 1 percent to 5 percent above base rates.

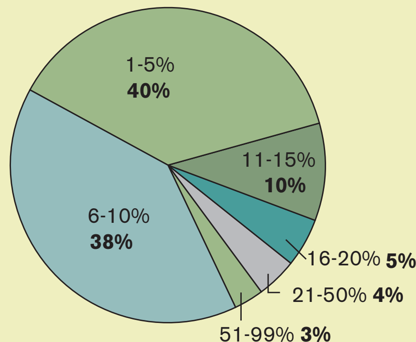
The press-time price of diesel, which was in the $3.85 per gallon range, is down from a high of $4.01 from the week of November 21. This high was followed by weekly declines for six straight weeks.

What's more, the current price is basically even with the most recent Short-Term Energy Outlook from the Department of Energy's Energy Information Administration (EIA). The EIA is calling for average 2012 diesel prices to be $3.85 per gallon and then increasing to $3.93 in 2013. The 2011 average was $3.84. Looking at oil prices, the EIA expects West Texas Intermediate (WTI) crude to average $100.25 per barrel in 2012 and $103.75 in 2013—numbers that are up over 2011's $94.86 and well above the 2010 average of $79.40.

Even with the roller coaster nature of diesel prices, the underlying theme is clear: Fuel prices will continue to increase, meaning that shippers need to keep their eyes on the ball and increase their transportation budgets to cover fuel cots.

The PRG survey found that 65 percent of responding shippers clearly expect to pay higher fuel surcharges in the coming months, with 74 percent planning on raising or adjusting freight budgets to cover higher-than-budgeted fuel prices.

How much do you plan to increase your transportation budget to cover fuel costs?
(% of respondents)



Source: Peerless Reseach Group (PRG)

There was some variation as to how much shippers plan on adjusting budgets, with 40 percent planning to raise or adjust freight budgets by 5 percent or less and 38 percent planning on a 6 percent to 10 percent hike. Ten percent of shippers said they planned to modify budgets by 11 percent to 15 percent, followed by 5 percent planning on a 16 percent to 20 percent adjustment.

But adjusting budgets is only part of the solution when it comes to dealing—and living—with fuel price

fluctuation, according to shippers.

"Right now we are looking at hedging diesel ourselves to see if it makes sense for us," said Wayne Johnson, manager of carrier relations at Owens Corning. "We're also focused on keeping our drivers on the road as much as we can as well as putting in more carrier pools and improving lead times to our plants from 45 minutes to the 20 minute range to get drivers in and out of our plants as quickly as possible."

Other steps being taken to combat high fuel prices, says Johnson, include focusing on utilization and efficiency by doing things like taking empty miles out of existing transportation networks.

"Geopolitical situations [in regard to fuel and oil price volatility] are such that it will continue to be a variable for some time to come and touches every part of the supply chain, including capacity and cash flow," said Phillip Johnson, VP of sales for land and transport services at APL Logistics.

According to Bobby Harris, president and CEO of non-asset based 3PL BlueGrace Logistics, shippers need to continue to with their carrier partners on ways to better control fuel cost pressures whenever possible and get budgets better aligned going forward.

These measures, says Harris, are vital as fuel prices are likely to go up. □

GRIDLOCK

U.S. Chamber of Commerce head says rebuilding infrastructure is a 2012 business community priority

WASHINGTON, D.C.—According to country's top business lobbyist, the U.S. economy is "superbly positioned" for a "new era of growth" as it emerges from three years of economic doldrums, but leaders must make key decisions and investments to take advantage of the rebound.

"As growth starts to return, and as we convince our government to remove some of the impediments, then it will be incumbent on business to take a few more risks and to make more investments," said U.S. Chamber of Commerce President and CEO Thomas Donohue, adding that a key ingredient in increasing that risk taking is maintaining and improving the nation's transport and infrastructure system through a long-term highway bill—perhaps partially paid for by an increase in the federal fuel tax.

Donohue spoke Jan. 12 at the Chamber's annual "State of American Business" economic outlook before more than 200 business leaders at the Chamber's headquarters across the street from the White House.

In a typically blunt but optimistic speech, Donohue implored Washington lawmakers not to "take off" 2012 because it's an election year. Instead, he said 2012 can be a "can do" year by enacting policies that will drive private sector growth and create jobs to cut into the nation's official 8.5 percent unemployment rate—a figure that stood at 5 percent in 2007 before the recession hit.

"We haven't had an increase in the federal fuel tax [currently 18.4 cents on gasoline, 23.4 cents on diesel] in 19 years. We have to deal with that issue."

—Thomas Donohue, President and CEO, U.S. Chamber of Commerce

Donohue predicted a mere 2.5 percent growth in Gross Domestic Product (GDP), but improving to about 3 percent in the second half of the year depending on such uncertain factors as the geopolitical worries, the worldwide price and availability of crude oil, and how America copes with its ballooning debt.

"As we begin 2012, the state of American business is improving, but it's doing it weakly, slowly, and insufficiently and not well enough to put our country back to work," Donohue said.

Noting that the U.S. is still down 6 million jobs from the start of the recession, Donohue implored Washington to do better.

"We reject the wisdom that nothing gets done in an election year," said Bruce Josten, the Chamber's executive vice president and Donohue's confidant.

"We must grow faster," Donohue said. "And we can if leaders in Washington work with the private sector to spur growth and create jobs without increasing taxes or adding to the deficit."

Speaking specifically on transportation, Donohue, the former head of the American Trucking Associations, implored Congress to renew the current federal-aid transportation before it expires in March. That program, dubbed SAFTEA-LU, has been funded at about $52 billion a year for the last two and a half years through a series of short-term funding measures.

"If Congress doesn't act by March 31, the Highway Trust Fund would be cut by 35 percent," Donohue predicted, putting thousands out of work.

The Chamber has been a vocal supporter of a long-term highway bill that Donohue said would create millions of good paying construction jobs while modernizing this nation's aging infrastructure. Short-term funding extensions, he added, are no way to adequately plan for long-term highway and transit programs with any degree of certainty.

Donohue said that as many as 1.9 million new jobs could be created if public-private partnerships could be expanded for transport projects. However, at some point, the nation has to face a "fundamental reality" and figure out how to pay for it.

"We haven't had an increase in the federal fuel tax [currently 18.4 cents on gasoline, 23.4 cents on diesel] in 19 years," said Donohue, who in the past has indicated support for higher fuel taxes if that revenue were reserved for transport only projects. "We have to deal with that issue."

—John D. Schulz, Contributing Editor

OBITUARY

Trucking visionary Don Schneider dies at 76, shaped post-deregulation industry

GREEN BAY, Wis.—Donald J. "Don" Schneider, a trucking industry visionary and chairman emeritus and former president and CEO of truckload giant Schneider National, died Jan. 13 in De Pere, Wis., following a long battle with Alzheimer's disease. Schneider was 76.

Trucking industry and company colleagues say it was nearly impossible to overstate Schneider's importance to the industry in its post-deregulated era following the Motor Carrier Act of 1980.

Along with J.B. Hunt, Swift Transportation's Jerry Moyes, and perhaps a handful of others, Schneider accurately foresaw changes and shaped the way the industry would perform for decades following deregulation.

He predicted that shippers would demand more and better services such as just-in-time inventory replenishment and time-definite services. Unencumbered by government rate regulation, Schneider anticipated the rise in low-cost, non-union operations such as his own company, J.B. Hunt, Swift, Werner Enterprises and hundreds of other now-landmark operations in what is now the $300 billion truckload sector.

"Don Schneider was a visionary, bringing business acumen and technology to blaze a trail and set the standard in the modern day development of our industry," American Trucking Associations President and CEO Bill Graves said. "The transportation and logistics industry has lost one of its most passionate and influential voices."

An extremely low-key individual, Schneider's modest and shy exterior belied his extremely high intelligence and foresight. An MBA graduate of the University of Pennsylvania's Wharton School of Business, Schneider parlayed his vision and operations wisdom into personal fortune. In 2007, Forbes magazine ranked Schneider as the 117th wealthiest person on its list of 400 richest individuals, with a net worth in excess of $3 billion.

But one would never realize that from a casual meeting with Schneider. Usually dressed modestly in a blue denim work shirt, Schneider was typically shy of the press—unless a reporter warmed him up with a few questions about his beloved hometown Green Bay Packers. He was a founding member of the Packers board, the team's director emeritus, and an avid and knowledgeable NFL fan.

It often seemed that Schneider would much rather talk about quarterback Brett Favre than his company's newest service offering. But once Schneider opened up about his company, one found him to be engaging, forthright, smart, and funny.

Don Schneider (1935-2012)

Trucking was in his blood. His father, Al, started a storage and transfer service in 1938 in a converted horse stable. He dropped the storage element in 1944. Don took over the trucking firm in 1983 after receiving his Wharton M.B.A.

Schneider was an early adopter of satellite tracking technology and one of the first large TL carriers to expand into logistics and other specialized services. Through his direction, Schneider became one of nation's largest haulers by buying up competitors.

Today, privately-held Schneider National ranks as the second-largest TL carrier in the country with 15,500 drivers and 48,000 trailers covering more than 8 million miles every day. It did $3.7 billion revenue last year and, although Schneider does not release exact income figures, is believed to be solidly profitable.

Schneider was one of the first U.S. trucking companies to expanding internationally with operations in China, Czech Republic, and Mexico.

Schneider was born on Oct. 19, 1935, the same year his father, sold the family car to buy his first truck. That laid the groundwork for what would become, under Don's leadership, one of the most successful, recognizable, and respected transportation and logistics companies in North America.

—John D. Schulz,
Contributing Editor

RAIL

AAR says 2011 volumes show gains compared to 2010

WASHINGTON, D.C.—Railroad and intermodal volumes continued to move in the right direction in 2011, according to data released by the Association of American Railroads (AAR).

Total carload volume in 2011 at 15,155,992 was up 2.2 percent year-over-year compared to 2010's 14,820,128 and up 9.7 percent over 2009's roughly 13.8 million. Intermodal volume, at 11,892,431 trailers and containers, was up 5.4 percent year-over-year compared to 2010's 11,283,151 trailers and containers and up 20.4 percent compared to 2009's roughly 9.9 million units. Keep in mind, 2009 represented the lowest annual carload and intermodal tallies on record, according to AAR data.

"A good beginning, some uncertainty in the middle, and then a good

ending—that describes U.S. rail traffic in 2011," said John Gray, AAR's senior vice president for policy and economics. "We continue to see hopeful economic signs, as the industry prepares for 2012."

Despite the annual carload and intermodal gains over 2010, AAR officials said that there is "some distance to go before U.S. railroads recover all they lost in the recession." In 2006, U.S. carload and intermodal volumes peaked prior to bottoming out during the depths of the recession in 2009, which saw carloads and intermodal trailers and containers down 20.2 percent and 19.6 percent lower than in 2006. In 2011, carloads and intermodal were down 12.4 percent and 3.2 percent compared to 2006.

What's more, the AAR explained that U.S. railroads have recovered roughly 38 percent of the carload traffic lost in the recession from the 2006 peak, while intermodal has returned 84 percent of lost volumes during the same timeframe.

The significant bounce back on the intermodal side has been in the works in a strong way over the last two years, due to a strong performance on the domestic container side. Domestic containers in 2011 were up 6.0 percent over 2010 and accounted for 85.5 percent of total 2011 intermodal volume. Trailers were up 2.2 percent compared to 2010.

"Despite the many economic headwinds throughout 2011, the railroad industry chugged right through it," said Anthony B. Hatch, principal of New

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York-based ABH Consulting. "These numbers are not a big surprise, especially on the intermodal side."

But compared to previous years when there was a sense of visibility into key industrial and consumer drivers that drove rail and intermodal volumes, Hatch noted that shippers are not as willing to publicly share those expectations and forecasts as they once were—which, in turn, makes things more uncertain in terms of planning.

Even with the lack of visibility, Hatch said there is no reason not to expect to see a continuation of the volume trends that were at work in 2011 again in 2012. As an example, he said its' reasonable to expect good numbers in 2012 for shale business and natural gas-related numbers, as well continued intermodal growth.

The AAR said that 14 of the 20 cargo commodities it tracks were up in 2011 compared to 2010. Metallic ores were up 67,631 carloads or 20.5 percent, primary metal products were up 56,988 carloads or 12 percent, and petroleum products were up 36,811 carloads or 11.1 percent.

Not surprisingly, coal represented 44.5 percent of non-intermodal U.S. carloads at 6,749,436 carloads, which was up 0.3 percent from 2010 and up 1.5 percent from 2009. Rounding out the top three commodity carload totals in 2011 were agricultural and food products at 1,994,511 for a 2.6 percent annual decrease and chemical and petroleum at 1,917,338, which was up 4.8 percent compared to 2010.

—Jeff Berman, Group News Editor

***LOGISTICS MANAGEMENT* EXCLUSIVE WEBCAST**

2012 Logistics Rate Outlook: Flat... for now

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Leading transportation analysts say that rates will be fairly level across all modes heading into 2012, but they warn that a number of unanswered economic and regulatory questions could push them skyward if resolved.

What can shippers expect in 2012 in terms of rates and capacity?

Join Group Editorial Director Michael Levans, *Logistic Management*'s Executive Editor Patrick Burnson, and a panel of leading economic and transportation analysts as they share their insight on where rates and capacity are headed over the next 12 months.

Our distinguished panel will also take a closer look at the moves carriers will be making to stay the course and provide shippers with the services they require to achieve sustainable growth.

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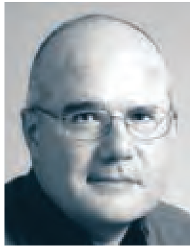

Pricing and culture: Making the connection

THIS PAST MONTH I WAS IN CENTRAL AMERICA working with a natural resources firm on the negotiation of terms and freight for global supply and distribution. I was reminded again of the diversity of cultures and approaches to negotiation, contracting, and price components.

It's worth taking some time before any international bargaining session to remember some basic human rules on both business and personal relationships. In fact, I would contend that the two are very closely aligned in developing supply chain solutions. Here are five cautionary rules of the road for buyers of logistics services from international providers.

Maintain eye contact. It's a basic human trait to want to trust your business partner. If you approach negotiations with the intent to dominate the relationship or cheat the other party, beware that even if you succeed, you fail. The network of providers and buyers logistics services is connected and getting tighter at an increasing rate. Assume your behavior will be on the equivalent of "Angie's List" for all to know about.

Understand the cultural norms on negotiation. My colleagues in Central America say U.S. citizens take the fun out of give and take negotiations. If the process of negotiation helps build trust, flexibility, and balance for your partner, then by all means have a open, candid negotiation. Be prepared with some wiggle room so there can be some give and take. Be ready to shake hands and celebrate together upon the completion of the game.

Understand the Incoterms. In my first meetings, one of my clients kept referring to "SIF" and it took a few minutes to understand he was referring to CIF, or cost, insurance, and freight. Be prepared to define the key terms you will be negotiating to ensure there are no misunderstandings later.

Understand cultural and company requirements regarding gifts and gratuities. Beyond the legal restrictions, there are customary practices and local taboos. Get yourself fully briefed before you begin your travels. Remember, you don't want to do something at your first meeting to make a poor impression.

Do your homework. There are many factors that make up value. The freight price is determined by costs of factors such as fuel, equipment, labor, insurance, and capacity in a lane. Today in international trade, the elements of reliability, sustainability, and flexibility are being weighed equally with these traditional factors.

Researching equipment balance, road and sea lane conditions, customs issues, border delays, and even terrorist threat levels can provide the buyer with leverage in pricing particularly if your products are less subject to interference or delays.

These rules of the road are to stimulate your thinking. Make a list of elements that you can bring to a negotiation and enjoy the process of interacting with your global professional colleagues. You and your company will be richer for it. ☐

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EXCELLENCE

Pearson on

Strategies for aligning manufacturing with business and supply chain goals

MOST COMPANIES' MANUFACTURING STRATEGIES involve decisions relating to landed cost per unit, cost/quality balance, and various SKUs' compatibility with supply chain parameters—transportability, packaging, serviceability. However, one thing is often missing: insights for connecting manufacturing operations with business results. Few companies excel at understanding and optimizing the business value of their manufacturing decisions.

This is not to say that all manufacturing companies have similar goals or priorities. However, ensuring that smart manufacturing choices are also smart business choices should be a largely universal theme. And for most companies, using technology to generate, clarify, and disseminate manufacturing information is the best way to raise the business value of manufacturing operations.

Consider how technology acumen can benefit the business missions common to many manufacturers:

• *Improve customer centricity.* Every year, manufacturing customers want more customization, higher quality and greater value. Manufacturers can respond by using technology to integrate customer feedback into manufacturing and design processes; cost-effectively increase customization; reduce product and process complexity; and help designers, suppliers, and contractors work more interactively.

• *Become more globally and more local.* More and more manufacturers must combine global operations with a regional (locally knowledgeable, market-customized) presence. Technology can help support this dichotomy by enhancing network visibility, data security, product tracking, and total landed cost management at the global, national, regional, and local levels.

• *Maximize agility.* Everything about business is moving more quickly. Advanced information technology can help manufacturers do a faster (and better) job of identifying profitable customers, right-pricing products, determining the drivers of financial success, and shifting capabilities during reorganizations, M&A situations, and outsourcing engagements. Every company that manufactures products also manufactures information. And more often than not, companies that do the best job of leveraging their manufactured information will derive the greatest business value from their manufacturing operations. Here are three technologies that can help make manufacturing more strategic and businesses more profitable:

1. Analytics. Manufacturers have an immense opportunity to improve manufacturing—and overall business—effectiveness by better interpreting information that originates on the shop floor. The linchpin is analytics, which can be woven into work processes in several ways:

• *Automated decision applications.* These applications sense online conditions or data, apply logic or codified knowledge, and make decisions with minimal human intervention. The best conditions for this kind of decision-making are when experts can readily codify decision rules, surrounding processes are highly automated, and high-quality data exists in electronic form.

• *Applications for operational and tactical decision-making.* Recommendation and planning applications can incorporate near-real-time information and multiple models to make manufacturing decisions that balance conflicting goals such as profitability and customer satisfaction.

• *Strategic decision-making.* As shown in Figure 1, analytics can be applied with increasing sophistication based on the needs and abilities of the organization—moving from what-if based questions to forecasting and business optimization.

2. Lean Six Sigma (LSS). Lean Six Sigma's roots are mainly in cost reduction—eliminating or reducing process inefficiencies, excess inventory and motion, and unnecessary downtime. However, LSS also can help produce higher-level advantages focused on margin enhancement and profitability.

Companies often begin their LSS experience by establishing a set of disciplined processes based on industry standards, such as IT Infrastructure Library (ITIL), the eSourcing Capability Model for Service Providers (eSCM-SP), the Capability Maturity Model Integration (CMMI), ISO 9000 or AS9100 for aerospace and defense companies.

Using this underlying framework, manufacturers can then aim higher—driving micro-process adjustments and tracking the value impact of those

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Figure 1: The increasing scope of analytics

Competitive advantage	Low (Sophistication of intelligence)	High (Sophistication of intelligence)
High	• Optimization • Predictive modeling • Forecasting/Extrapolation • Statistical analysis	**Predictive Analytics** • What is the best that can happen? • What will happen next? • What if these trends continue? • Why is this happening?
Low	• Alerts • Query/Drill-down • Ad-hoc reports • Standard reports	**Descriptive Analytics** • What actions are needed? • What exactly is the problem? • How many, how often, where? • What happened?

changes across manufacturing operations and across the company. This continuous improvement of the production environment can raise agility significantly.

3. **Enterprise performance management.** Enterprise performance management (EPM) technology can help ensure that accurate, well-formatted information from manufacturing (and other locations) is available for use across multiple business functions, such as new product development, financial planning, and supply chain management. Savvy use of EPM often means:

- *Better decision making:* The result of providing managers with meaningful and actionable information to formulate budgets and plans, develop targeted reports, and analyze performance.
- *Improved collaboration:* Superior, reliable metrics, and a common language.
- *Increased productivity:* Achieved by reducing rework and manual fixes.

It isn't rocket science: Manufacturers that excel at generating, clarifying, and disseminating manufacturing information are well positioned to turn production operations into strategic assets. Key to making that happen are technology enablers such as analytics, Lean Six Sigma, and enterprise performance management. ☐

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OIL+FUEL

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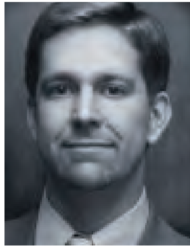

What will the Keystone XL decision mean to your transportation budget?

RARE IS THE NEWS DAY THAT PASSES without mention of the proposed Keystone XL (KXL) pipeline. In fact, just as I was about to send this article to the *Logistics Management* editors, news broke that President Obama rejected the proposed route for the KXL. Of course, this is not the last we will hear of the project. The route will be revised and resubmitted for review, and we will soon revisit the issues surrounding the KXL.

Labeling tar sands as the dirtiest and most carbon-intensive source of liquid fuels, environmentalists have galvanized around opposition to the proposed pipeline, which will connect Hardisty, Alberta—the collection point for Athabascan syncrude—to Cushing, Okla., and on to Houston and Port Arthur, Texas.

Opponents hope that by pressuring government, the U.S. will refrain from granting permits, and, as a result, Athabascan syncrude will remain stranded. While the former may be true, the latter does not necessarily follow.

The pushback against the KXL is intense, but the pipeline is staunchly supported by many people who are motivated by energy security and the promise of jobs creation.

TransCanada, the firm that has proposed the KXL, claims that construction will create 20,000 jobs and help the U.S. become more energy secure; however, a Cornell University study claims that "construction of the KXL will create far fewer jobs in the U.S. than its proponents have claimed and may actually destroy more jobs than it generates."

Of course, both the TransCanada-funded study and the Cornell study are politically motivated, but even more importantly, political motives underlie how the media frames the findings. As Mark Twain put it: "If you don't read the newspaper you are uninformed. If you do read the newspaper you are misinformed."

There are three reasons why the cancellation of the KXL will not likely have any impact on global greenhouse emissions. First, there is more than one way to skin a cat, and more than one way to get syncrude out of Athabasca. Another pipeline company, Enbridge, is currently seeking approval to construct a pipeline connecting Bruderheim (a town just east of Edmonton, Alberta) to Kitimat, British Columbia, where syncrude can be loaded into oil tankers and shipped to Asia.

Alternatively, syncrude could be loaded onto rail tank cars—in fact, this is starting to occur. With a capacity of 600 barrels each, it would take roughly 10 unit trains to equal the volume that the KXL is designed to transport (just over 800,000 barrels per day). While this is a lot of rail cars, a bit of envelope math suggests that 80 to 100 unit trains of far less valuable coal leave Wyoming every day.

Though trains are a more costly option, they offer a distinct advantage in that they can go to tight markets where the same barrel of oil will sell for a premium, which may be greater than the transport cost differential.

But even in the unlikely event that Canadian syncrude does become stranded, Canadian syncrude may simply be substituted by heavy oil sourced from Venezuelan tar sands. Currently the expansion plans for heavy oil production from the Orinoco Belt (a tar sands deposit similar in composition and size to Canada's tar sands) far outpace Canada's expansion plans.

While environmental concerns over tar sands production are justified, refusing to build the KXL pipeline will not meet environmentalists' primary goal to reduce greenhouse gas emissions, but will instead simply push production and emissions around the globe.

The bottom line is that U.S. refineries will either operate at capacity or shut down. If the KXL is constructed, Canadian syncrude will supply them. If the KXL is not constructed, one or more refineries will either be shuttered, thereby causing fuel prices to increase, or these U.S. refineries will be forced to purchase oil on the open market, which means that the U.S. may source dirty heavy oil from Venezuela.

While there is no guarantee that the diesel produced in U.S. Gulf Coast refineries will be sold to U.S. consumers (in December we exported 22 percent of the diesel we produced), construction of the KXL would further lock in the U.S. as the most economical destination for

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Canadian syncrude—and from a price perspective this is certainly a good thing.

As I've explained before, the relative over-supply has suppressed the price for crude delivered to Cushing and regional refineries served from there. This relative glut, which is due to the increased output of Canadian syncrude and Bakken shale oil, underlies the divergence in price between West Texas Intermediate and Brent crude streams. These savings have been passed on to the consumer, and this is why diesel has been somewhat less expensive in the Midwest than elsewhere in the U.S.

Though Canada exports oil to countries other than the U.S., the U.S. consumes the majority of Canada's oil production. This is in part due to the configuration of the current pipeline infrastructure, but it also results from the NAFTA "proportionality clause."

The proportionality clause states that Canada must make available for U.S. purchase an amount of oil and gas proportional to the average of Canada's oil exports to the U.S. over the previous three years.

The three-year rolling average of Canada's U.S. exports as a percentage of production through 2010 was 60 percent. Assuming that it remains at this level, if Canada produces 3.6 million barrels per day (mbd) next year, by NAFTA convention, they must sell 2.16 mbd to the U.S., but only if the U.S. demands this amount. If, however, the U.S. only purchases 1.8 mbd, the three-year average will drop and Canada will no longer be beholden to selling 60 percent of its oil to the U.S. in the future.

In short, the world oil market is far from perfect, and as it stands now, the U.S. benefits from the proportionality clause. If we choose not to approve any version of the KXL, we may inadvertently lose the price advantage and security that the proportionality clause currently ensures.

While environmental concerns over tar sands production are justified, refusing to build the KXL pipeline will not meet environmentalists' primary goal to reduce greenhouse gas emissions, but will instead simply push production and emissions around the globe.

Canada's tar sands will be produced unless production itself is disallowed or becomes uneconomical. The question that the KXL helps answer is whether the U.S. or China will be the end consumer of Canadian syncrude. And if the U.S. is not consuming Canadian syncrude, we may very well substitute Venzuelan heavy oil because there aren't many options left.

There are no ideal solutions to the current situation, but some choices are clearly better than others. Failing to permit the KXL will most likely cause U.S. imports of Canadian oil to decline, and over time the proportion guaranteed through the proportionality clause will erode. Through the proportionality effects, failure to approve the KXL will likely make the U.S. less energy secure and will most likely result in higher domestic fuel prices. □

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Tuesday Morning *shifts* modes

The retailer's transformational best practice just so happens to be a move back to the rails in order to cope with growing truck capacity concerns—and it did so with the help of its trucking partner.

BY **JOHN D. SCHULZ,** CONTRIBUTING EDITOR

These days, trucking companies are facing increasing capacity constraints as the economy creeps toward recovery. Equipment is more expensive, drivers are getting harder to find, fuel costs are rising again, government regulations are becoming more restricting, and hours of service could be tightening. And when the economy finally does come around, it could become even more challenging to find precious capacity.

Logistics leadership at Tuesday Morning, a Dallas-based retailer specializing in upscale closeout merchandise with 865 stores across the U.S, saw these potential stumbling blocks forming as early as 2006.

Truck capacity started to tighten that year—perhaps the last really strong year for trucking companies. And since Tuesday Morning's stores function on an event basis, its major challenge was getting store merchandise from its origin through distribution channels and into their stores by a specified date and time for their more than 20 specialty sales events per year.

Taking all this into consideration at the time, Tuesday Morning started looking for ways to save money while meeting its tight deadlines—and what the team came up with was a solution ahead of its time. They decided to use rail intermodal out of the West Coast ports to a single, national distribution center (DC) just outside of Dallas.

To make this happen, Tuesday Morning got intermodal help from an unusual source: its trucking partner, Averitt Express. The carrier, like many trucking organizations these days, prides itself on finding multiple solutions for its customers, even when it might involve other modes.

"We started to take a hard look at intermodal for our inbound needs in the fall of 2006 during peak season," says Cheryl Bailey, Tuesday Morning's logistics manager for transportation. "We found that it gave us many options."

Bailey says that because of physical limitations on how much product it could store at

Left to right: Jerry Kemper, general manager of transportation; Cheryl Bailey , transportation logistics manager; Brian Turner, director of transportation and planning

Photos by Jennifer Boomer/Getty Images

its Texas distribution facility, the logistics team realized that it could better manage its inbound flow when freight was put on the train. Line-haul savings were substantial; service was as good or even better than the truck at times; and there were no worries about capacity.

In turn, Tuesday Morning's long-haul solution became as unique as its collection of one-time merchandise it sells in its stores. Here's how the retailer's relationship with its truck carrier lead them to ride the rails to increased profitability and rack up transportation savings that continue to this day.

GIVE RAIL A CHANCE

According to Bailey, Tuesday Morning has worked in concert with Averitt, one of its primary truckload (TL) and less-than-truckload (LTL) carriers since 2005. Back in 2006, a portion of Tuesday Morning's product was arriving at Averitt's PortSide distribution center in Long Beach, Calif., and transloaded by the carrier to over-the-road trailers for movement via truck to Farmers Branch, Texas—a gigantic, 1.7-million-square-foot group of facilities located just outside of Dallas.

To get to that facility in the most cost-effective manner, Tuesday Morning began substituting the Union Pacific Railroad (UP) for the 1,420-mile linehaul between Long Beach and Dallas. Service ran about 58 hours. Tuesday Morning's logistics team as well as their carrier partner both claim that the service reliability was identical to truck, with obvious dividends. "Simply put, the rates were better and the capacity was better," says Jerry Kemper, general manager of transportation of Tuesday Morning.

Now they just had to work on a strategy to make intermodal an integral part of the plan. Tuesday Morning's distribution to its network of 865 stories is unique among national retailers in that it has chosen to cover the nation with its one DC in Farmers Branch—a move that puts planning and storage at a premium. In fact, due to the amount of freight coming inbound, the team found that storage actually became limited at the gigantic facility.

The logistics team discovered that with some advanced planning and coordination, rail intermodal deliveries could be spaced adequately apart to help alleviate storage concerns—without sacrificing service.

At the time, Tuesday Morning was utilizing about 30 to 40 core carriers. And while the shippers contacts at Averitt understood that sometimes the deadlines for this link of the supply chain were tight, it felt intermodal services could meet the majority of time demands while earning major savings. "It was an obvious decision," says Bailey.

PUTTING RAIL TO WORK

So exactly how does the Averitt/UP partnership work for Tuesday Morning? Let's examine the process and how the team put the intermodal process to work.

It starts with much of Tuesday Morning's merchandise manufactured in the Far East. Those products are then shipped via ocean cargo to the West Coast ports of Los Angeles and Long Beach. Formerly, all that freight moved exclusively via truck to the Farmers Branch DC. But according to Brian Turner, Tuesday Morning's director of transportation and planning, truck capacity concerns created worries that moving exclusively by truck might crimp the company's lean distribution chain.

A few years ago, with the U.S. economy struggling, capacity concerns were not that great in the retail sector. "However, as the economy grew and capacity started to get tight, I needed to get ahead of the curve and do things like intermodal," says Turner. "When capacity starts to get constrained on the road, I'm still flowing my goods."

The Tuesday Morning team embraced the solution and started using intermodal services in March 2010. The transition was slow because they considered it a secondary option to its trusted over-the-road services. But after a few months, however, the roles reversed and intermodal service became Tuesday Morning's primary mode of transportation from the West Coast. And when a delay is caused by an overseas provider, Averitt has the ability to make service promises through its expedited services.

"It's a different service standard, of course. But once you get calibrated with that service standard, it's been my experience the rails are very dependable."

— Jerry Kemper, General Manager of Transportation, Tuesday Morning

This multimodal approach is "definitely indicative" of what shippers are asking for these days, according to Mark Richards, director of truckload sales at Averitt. And factors such as the looming driver shortage and increased government regulations on truck driver hours of service could only make things worse, he says, adding that it won't take much of an economic uptick to make things even more challenging on the capacity front.

For Tuesday Morning, the streamlined service out of the West Coast is reliable and invisible to over-the-road truck. "Service has improved tremendously," says Richards. "Back in the day, train service just wasn't acceptable, and damage was a problem. But today,

Why has intermodal service improved?

Like a lot of trucking companies, Averitt utilizes all of the nation's rail partners. Depending on geographic need, it uses Union Pacific and Burlington Northern Santa Fe in the West, CSX and Norfolk Southern in the East, and the Florida East Coast Railway up and down the Eastern Seaboard.

"Our relationship is very strong with all the rails," explains Mark Richards, director of truckload sales at Averitt Express. "You'll see that with most trucking companies."

A decade or two ago, the main complaint about the rails was their service levels, or lack thereof. The old saying was that when a truck is late, the delays run in the minutes and hours—when a railroad is late, its delays are in the days and weeks.

So what's really driving the improved service on the rails? Along with other large freight transportation companies, UPS is largely credited with driving the service improvements on the rails. The nation's largest transportation company is the largest rider on the rails and will spend upwards of $4 billion this year on rail service. J.B. Hunt, the nation's fifth-largest truckload carrier, gets more than 40 percent of its revenue these days from rail intermodal.

"Those carriers, along with Wal Mart, are what's driving that improvement," says Richards. "They told the railroads years ago that they would like to use more rail, but they can't live with the type of service they were providing." And the railroads listened.

They started hiring scores of top executives from trucking companies. For example, the Burlington Northern Santa Fe's chief marketing officer nowadays is John Lanigan, a former top operations executive with Schneider National, the nation's second-largest TL carrier.

And with moves like that rail operations changed. Railroads now routinely run what's called "sprint" trains that run non-stop. In the past, rails mixed boxcars with general commodities; but today, trains from the West Coast to Dallas no longer stop in remote outposts like Amarillo to drop two or three cars and reconnect others, causing delays.

"They're now loading West Coast to Dallas and running direct without making any stops," says Richards.

—by John D. Schulz, Contributing Editor

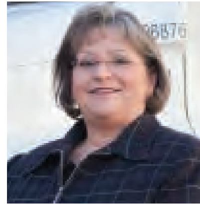
trains run straight from the West Coast into Dallas and Houston in 58 hours to 62 hours, and you can count on it."

SOLUTION IN ACTION

A generation ago, shippers who used rail service as a substitute for truck were shocked by the poor service levels. A series of messy rail mergers a decade ago did nothing to improve that service. But fortunately, times have change and the railroads have improved.

"Rail carriers are just as dependable as truckload these days," says Kemper. "It's a different service standard, of course. But once you get calibrated with that service standard, it's been my experience the rails are very dependable."

Kemper, who came to the retailer from the less-than-truckload (LTL) side, said that when LTL carriers began using rail a decade ago it was to compliment their over-the-road service. "That's what we're seeking to do as well—compliment our over-the-road carriers. Some of our over-the-road carriers are intermodal as well, so it works out," he said.



"We're limited in storage space, and that's the driving factor. If we don't have a place to unload the box, we have to store it. If we return the boxes, we can bring more in."

— Cheryl Bailey, transportation logistics manager

Turner now calls the rail option "vital" to Tuesday Morning's overall supply chain strategy. "As we look at that strategy going forward, it's a strategy we have to consider. Intermodal is cheaper than over-the-road. If we can do it and maintain the same level of efficiency, we're going to do it."

While Bailey declines to provide exact savings from use of intermodal, she did called it "significant." Tuesday Morning currently utilizes intermodal for 20 percent of its overall transport, with 80 percent still going over-the-road. However, she says that the ratio could change going forward. "It will depend on how much we utilize rail for outbound," she says. "We're limited in storage space, and that's the driving factor. If we don't have a place to unload the box, we have to store it. If we return the boxes, we can bring more in."

But given the cost savings, Tuesday Morning now looks at intermodal service as a viable transportation option in all lanes that exceed 500 miles. And Averitt, one of its main transportation partners, says its fine with that. "Tuesday Morning is an excellent customer," says Averitt's Richards. "Intermodal is a piece of that, and it's going to grow a lot with them. In fact, I don't want to call them a customer or client—it's a true partnership. We share a lot of knowledge and we share a lot of ideas." ☐

John D. Schulz is a Contributing Editor to Logistics Management

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CSA/SMS: Shippers, take ACTION!

The implementation of the FMCSA's Safety Measurement System (SMS) has the unintended effect of increasing shippers' exposure to vicarious liability for highway accidents. Our transportation law expert explains how this came to be and calls on the industry to come together to support a legislative solution.

BY **BRENT WM. PRIMUS,** J.D.

Much has been said and written about the Federal Motor Carrier Safety Administration's (FMCSA) Compliance, Safety, Accountability (CSA) Safety Measurement System (SMS) over the past year. During that time, *Logistics Management* has, to its credit, set out to explain why CSA/SMS exists and what it could mean to the dynamics of the shipper/carrier relationship.

However, in this installment of the series that we call "Logistics and the Law," we'll focus on how the very existence of the SMS data exposes shippers to vicarious liability for highway accidents. Simply put, the current situation is a total mess.

We will first take a look at how we got to where we are today. We will then propose a global solution to the problem, namely legislation that would (1) restore the true purpose of CSA/SMS as a means for the FMCSA to identify carriers with potential safety problems, and (2) eliminate a use that was never intended—a courtroom argument for holding a shipper, or any other entity in the supply chain that uses motor carriers, vicariously liable for highway accidents.

Because a legislative solution will require an act of Congress, we will also offer some suggestions on how to weather the storm until Congress acts.

Brent Wm. Primus, J.D., is the CEO of Primus Law Office, P.A. and the Senior Editor of transportlawtexts, inc. He is the author of Motor Carrier Contracts Annotated *and co-author of* U.S. Domestic Terms of Sale and Incoterms 2010. *He also was the Editor of* Freight Claims in Plain English, 4th Edition, *and is a frequent contributor to* Logistics Management. *He can be reached at brent@primuslawoffice.com.*

FIRST, SOME HISTORY...

The Motor Carrier Safety Act of 1984 required the Secretary of Transportation to "maintain, by regulation, a procedure for determining the safety fitness of an owner or operator of commercial motor vehicles."

The resulting regulations were first implemented in 1988. Pursuant to these regulations, motor carriers are assigned a safety rating. These ratings are based upon a compliance review that is an on-premises inspection of the carrier's records, driver logs, and procedures to see if they are adequate from a safety viewpoint. The possible ratings are "satisfactory," "unsatisfactory," "conditional," or "unrated."

The first important takeaway for shippers is that this system is still in place today and will remain in place for the indefinite future. CSA/SMS is an independent system and does not replace or supersede the safety rating system. While the terms "unfit" and "marginal" are possible future replacements for the terms "unsatisfactory" and "conditional," they are not currently used for either safety ratings or as part of CSA/SMS.

In the mid-1990s another system was initiated known as

the Motor Carrier Safety Status Measurement System (SafeStat). Under this system, a carrier was assigned a rating in four areas with a score of 75 or above labeled "deficient."

The primary difference between the determination of a safety rating and the determination of a SafeStat score was that the latter was based upon a statistical methodology, not an on-site visit. Up until 2004, most persons in the industry were aware of the fact that a carrier had a safety rating (e.g., "satisfactory" or "unsatisfactory"), but many persons, including myself, had never even heard of SafeStat scores.

This all changed when a U.S. District Court issued a decision in the case of *Schramm v. Foster*. Specifically, the judge denied C.H. Robinson's request to dismiss the case and allowed the case to go to the jury on the theory of negligent hiring of a motor carrier. The judge considered two factors. First, the motor carrier's safety rating was "unrated." Second, at the time of the accident, the motor carrier had a SafeStat rating of 74 in the driver safety evaluation rating.

Although not explicitly so stated, the *Schramm* decision equated a "deficient" SafeStat rating with an "unsatisfactory" carrier safety rating. This would mean that if one of a carrier's ratings was 75 or higher then that carrier should not be used by a shipper just as a shipper should not knowingly hire a carrier with an "unsatisfactory" safety rating.

Indeed, even though the trucker's SafeStat rating was 74—not "deficient"—the judge opined that it was close enough to 75 to warrant further investigation. The problem with the court's analysis in *Schramm* is that its reasoning leads to an illogical result.

Assume for a moment that all of the carriers who had one or more SafeStat scores of 75 or higher went "out of business" because no one tendered them any freight. Immediately thereafter 75 percent of the initial group of carriers would then become 100 percent of a new group of carriers.

Of these carriers, 25 percent would have SafeStat scores of 75 percent or higher and, accordingly, they too would have to be put "out of service"…and so on until all carriers but one had closed their doors. This hypothetical exercise shows the basic flaw in the *Schramm* decision as well as using SafeStat scores or SMS data for carrier selection: at any given point in time there will always be carriers who are safer than others—even though all of them might be perfectly safe when measured by an objective standard.

CSA IMPLEMENTATION, LITIGATION, AND SETTLEMENT

Beginning in the mid-2000s, the FMCSA began work on a new system, CSA, to replace SafeStat. Although the statistical methodology of CSA is different than SafeStat, conceptually the two are the same. They're both intended by the FMCSA to be a way to identify carriers who may not be operating in a manner consistent with a "satisfactory" safety rating.

Under the previous system, a SafeStat score of 75 or above was deemed deficient. Under CSA, there are seven

categories called Behavior Analysis and Safety Improvement Categories, or BASICs. For five of these categories, a carrier's score is available for public view on the FMCSA's website. A score of 60 or 65 (or higher), depending upon the area, originally resulted in the word "alert" appearing next to the carrier's score.

The motor carrier industry was well aware that after *Schramm* many shippers would not be willing to use a motor carrier who had one or more "alerts" posted on the FMCSA website even though the carrier had a "satisfactory" safety rating. The trucking industry was also concerned with the basic methodology used by the FMCSA—for example, an accident that is determined not to be the fault of the carrier still goes against its BASICs score.

Accordingly, three motor carrier trade associations—The National Association of Small Trucking Companies (NASTC), The Expedite Alliance of North America (TEANA), and the Air & Expedited Motor Carrier Association (AEMCA)—brought a lawsuit against the FMCSA seeking to, amongst other things, postpone publication of the percentile rankings and the "alert" designation. The case was resolved through mediation.

The result of the mediation was that the FMCSA will continue to publish the percentile rankings, however the term "alert" has been changed to a yellow triangle containing an exclamation mark. Also, the FMCSA agreed to reword and strengthen the disclaimer on its website regarding the purpose and use of BASICs scores.

The most important aspect of the disclaimer is to clearly state that the BASICs scores do not replace or supersede a carrier's safety rating. In other words, so long as a carrier has not been deemed "unsatisfactory" they are authorized to be on the nation's highways.

USE OF SMS DATA/INFORMATION

The data in the Safety Measurement System (SMS) is performance data used by the Agency and Enforcement Community. A symbol, [on left] based on that data, indicates that FMCSA may prioritize a motor carrier for further monitoring.

The symbol is not intended to imply any federal safety rating of the carrier pursuant to 49 USC 31144.Readers should not draw conclusions about a carrier's overall safety condition simply based on the data displayed in this system. Unless a motor carrier in the SMS has received an UNSATISFACTORY safety rating pursuant to 49 CFR Part 385, or has otherwise been ordered to discontinue operations by the FMCSA, it is authorized to operate on the nation's roadways.

Motor carrier safety ratings are available at http://safer.fmcsa.dot.gov and motor carrier licensing and insurance status are available at http://li-public.fmcsa.dot.gov/.

—The full text of the disclaimer now posted on the FMCSA website

SOLVING THE PROBLEM

While the result of the litigation is certainly a step in the right direction, in my opinion it does not solve the problem. At the time that the litigation was commenced, 57 percent of the ranked motor carriers had a BASICs score(s) that would result in at least one "alert."

Even though this is now replaced by the yellow triangle containing an exclamation mark, has anything really changed?

Shippers are now in a "damned if they do, damned if they don't" situation. Suppose a shipper only checks a carrier's safety rating to see if it is "satisfactory," does not check the BASICs scores, and uses a carrier that has one or more yellow triangles containing an exclamation mark (formerly known as an "alert"). If there were then a highway accident, such a reliance on the FMCSA's disclaimer would be portrayed by a plaintiff's lawyer as a cold-hearted disregard for the safety of persons on the highway.

On the other hand, if they do look at the BASICs scores, I have yet to see any explanation of how to interpret them. Those that say it's very important for shippers to check a carrier's score do not state or describe any definitive, non-subjective criteria as to when or when not to use a carrier.

It may be an easy decision if a carrier has two or three scores in the 90th percentile and thus two or three yellow triangles. But what if there is only one yellow triangle, which 57 percent of the carriers have? Is it really feasible that we place 43 percent of the county's motor carriers out of service?

In my opinion there is only one solution that will solve this problem—a federal law that would prohibit the use of the FMSCA data in lawsuits arising out of highway accidents. One sentence will do the job: No part of the FMCSA's Safety Measurement System data may be admitted into evidence or used in a civil action for damages relating to a highway accident. While at first blush this may seem extreme, there is very good precedent for it.

The National Transportation Safety Board is the public agency charged with investigating accidents. The purpose of these investigations are to determine the cause of the accident and thus to hopefully avoid similar accidents in the future. In order to ensure the full cooperation of everyone involved in the investigation, the results of the investigation are by statute inadmissible as evidence in a civil lawsuit.

UNTIL CONGRESS ACTS

As of this time I am unaware of any contract provisions or procedures for carrier selection that would provide absolute protection, or "a safe harbor," for shippers to avoid exposure to vicarious liability for accidents on the highway.

In a perfect world, the most prudent course for a shipper would be to only knowingly use carriers that have a "Satisfactory" safety rating. However, it must also be kept in mind that when a shipper requires a carrier to have a "Satisfactory" safety rating, then the shipper should also have in place internal systems to monitor the carrier's status.

This is because a shipper does not want to be in the position that C.H. Robinson found itself in during the *Schramm* litigation where the judge noted that C.H. Robinson's contract required the carrier to have a "Satisfactory" safety rating, however the trucking company involved in that accident was in fact "Unrated."

The judge in *Schramm* thought that this could provide evidence for a jury to conclude that C.H. Robinson was aware of the importance of having a "Satisfactory" safety rating, but then

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didn't enforce its own requirement.

Further compounding the dilemma for shippers is the fact that of the 190,000 active motor carriers approximately 105,000 of them are "Unrated." The reason a licensed motor carrier may be "Unrated" is usually because the FMCSA has not yet had time to conduct an initial safety review for that company. However, many shippers must use, at least on occasion, unrated carriers to meet capacity needs.

A final consideration is that even with the most prudent process in place for carrier selection, accidents will happen. Where there are serious injuries or deaths it's likely that the shipper will be included in any ensuing litigation. Accordingly, the shipper's final bulwark to avoid a catastrophic economic loss is to have an appropriate liability policy in place.

There is a debate within the insurance industry as to whether the appropriate insurance for vicarious liability for accidents on the highway is "hired & non-owned automobile liability" insurance or "contingent automobile public liability" insurance.

Ultimately it's not the name of the policy that determines the coverage, but the terms of the policy. Accordingly, a thorough understanding of the policy terms is necessary to make sure that the policy would indeed provide coverage for vicarious liability for highway accidents.

CALL TO ACTION

One element of establishing that someone is negligent is to prove that they failed to follow an industry standard. But here there is no true standard to follow; and thus, it's virtually impossible for shippers to defend themselves in court even when they're trying their best to only use carriers that they believe to be safe operators.

"The intended purpose of CSA is to provide the FMCSA with a more efficient mechanism to identify carriers for possible intervention," says Raymond A. Selvaggio, general counsel of the Transportation & Logistics Council. "Using CSA as a sword against shippers and brokers in personal injury litigation runs counter to this purpose. This essentially makes shippers and brokers de facto policemen of the industry, rather than the FMCSA and the various state regulatory bodies that are tasked with this job. The proposed legislation is something that is needed and well warranted."

To conclude, the unintended effect of CSA/SMS on the issue of vicarious liability affects everyone who hires or uses motor carriers—shippers, carriers, brokers, freight forwarders, and intermodal companies hiring dray operators. Shippers, carriers, and others may differ on other issues, however, on this occasion they are called to come together and act as one. □

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State of GTM: Seeking higher ground

With freight costs rising, capacity constraints looming, and the complexities of global trade on the rise, our top analysts concur that global trade management (GTM) software will continue its slow-but-steady infiltration into today's vernacular—that is if shippers can justify the ROI.

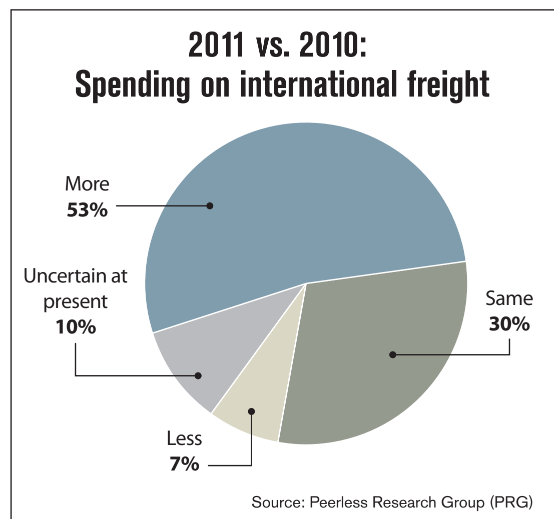
BY **BRIDGET McCREA,** CONTRIBUTING EDITOR

As global trade numbers continue to grow, the complexities that go along with its expansion are also on the rise. Inefficient shipping routes, changeable rates and hidden surcharges, capacity constraints, size and weight factors, along with safety and security issues are just a few of the key challenges that shippers are dealing with right now according to a recent research study from Peerless Research Group (PRG) on behalf of Amber Road (formerly Management Dynamics).

The research study, titled *Current Trends and the Potential for Automation in International Transportation Management*, highlights an international freight shipping environment that's plagued by challenges that potentially expose shippers to "risky and costly misfortunes." To circumvent these challenges, some domestic firms are turning to global trade management (GTM) solutions that help them better understand, negotiate, and adhere to contract provisions.

According to the report authors, "better informed decision-making on freight route planning, carrier selection, shipping scheduling and costing, load planning, guidelines compliance and auditing, invoicing, and reporting results in greater logistics operational efficiencies and yields significant cost savings."

But while GTM's value in the supply chain has been proven over the last few years, these solutions have yet to gain widespread traction among the vast majority of shippers. In fact, the report found that just one out of four shippers currently uses automated applications for calculating rates and for selecting routes and carriers. Surprisingly, freight auditing, invoicing, logistics execution, and contract management functions are also still largely manual functions.



Source: Peerless Research Group (PRG)

One of the reasons shippers may not be warming up to GTM is the fact that it can be difficult to associate the solution with a return on investment (ROI). "GTM isn't an ROI play in the sense that most supply chain software is," says Steve Banker, service director for supply chain management at the ARC Advisory Group.

Rather, GTM is more about compliance and about not breaking the laws set forth by governments. "You could argue that GTM can save money on potential fines, but that's not a very strong argument," says Banker. "That makes GTM a harder sell than applications that truly do have a strong ROI."

Over thee next few pages we'll look more closely at current GTM adoption rates, discuss the solutions' value in the global supply chain, and put the spotlight on how global shippers are benefitting from their GTM implementations.

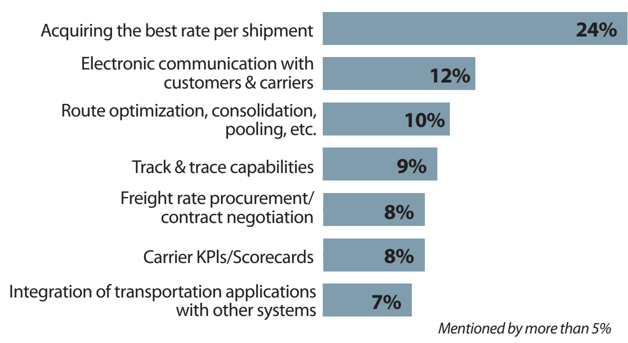
MAKING A CASE FOR GTM

Freight shipping initiatives are a major expense for most shippers—especially for those working in the global environment. According to the PRG survey, 22 percent of firms spend more

Colin Anderson

than 15 percent of their overall revenues on international and domestic freight services. Twenty-six percent spent more than $50 million on shipping in 2010, and 46 percent reported that 15 percent of their transportation costs were spent on international shipping initiatives.

For 2011, all indications leaned toward an increase in spending on international freight activity. More than one-half (53 percent) of the responding shippers say they planned to spend more last year than they did the year prior. As freight costs remain a big-ticket item for companies—and as those costs continue to rise—shippers say they'll seek out better rates, advantageous routes, optimized loads, consolidated shipments, carrier number reduction, and improved account management practices, all of which can be facilitated by a robust GTM.



Yet to date, just 15 percent of the respondents report that they're using such platforms. William McNeill, a senior research analyst with Gartner attributes this low adoption rate to the difficulties that shippers have justifying the software investment. "It's always hard to get funding for a project when you can't pinpoint a specific ROI," says McNeill. "Long-term supply chain visibility may sound compelling, but it's a nebulous term that has different meanings for different firms."

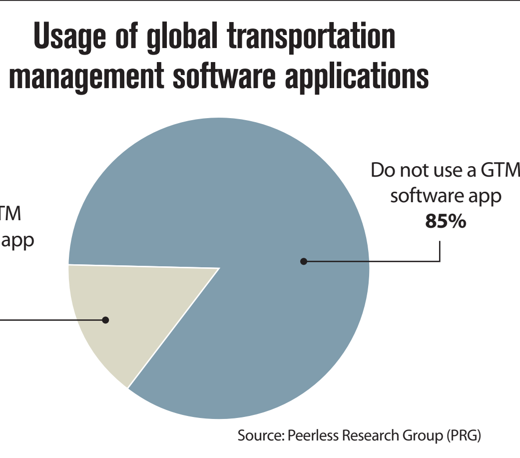
McNeill believes that companies that do business overseas can't convince executives to shell out funding for GTM systems may be missing out on significant benefits. According to the PRG survey, results reported by shippers using GTM include more established carrier selection processes,

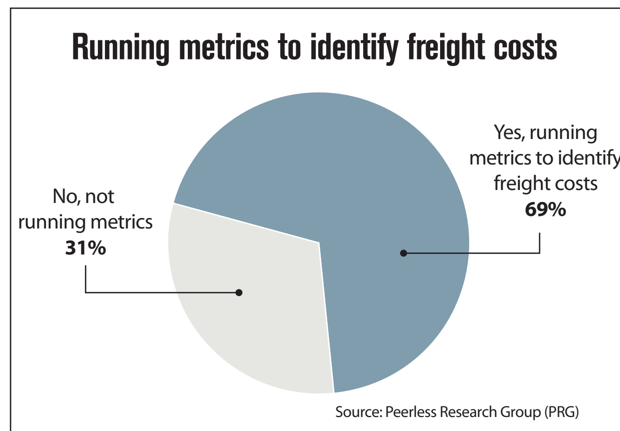
reductions in transportation spend, improved compliance with approved shippers, cost savings attained through freight audits, and reductions in invoicing errors.

Banker says GTM can also help companies save money on big fines associated with non-compliance. For example, an electronics company that was smacked with a $50 million fine was able to get that bill whittled down to $5 million by implementing a new GTM. “And they were able to promise that the same mistake would never happen again,” says Banker, who learned of the situation by speaking with the firm’s global trade manager at a recent trade show.

Third-party logistics providers are also seeing benefits from their GTM investments. At Houston-based Crane Worldwide, for example, Keith Winters, executive VP and COO, says the firm’s investment in Kewill’s global freight forwarding and export compliance solution has more than paid for itself. The firm uses the solution to manage all information, documentation, compliance, and financial aspects of its trade operations.

Winters says that key benefits of the GTM implementation include easier access to advance shipping notices, better order transparency at both the PO and reference number levels, easier information capture, and improved accountability within the organization itself. “Basically,” says Winters, “our GTM is the heartbeat of our entire organization.”





VENDORS PUSH INNOVATION

Shippers may not be jumping at the chance to purchase GTM to support their global trade operations, but that hasn’t stopped the software vendors from doing everything they can to improve and promote their solutions. Banker says SAP and Oracle, the latter of which reintroduced its GTM in 2011, are currently leading the market. “When a major ERP comes out with a solution it provides strong market impetus,” says Banker.

Best of breed players like Amber Road, Kewill, GT Nexus, and Descartes are also doing their part to get their solutions into the hands of more shippers. The latter’s SaaS-based cross-border notification offering, for example, is especially compelling for shippers that want a fast, easy way to send advanced electronic registrations to foreign government entities. “Descartes has been making inroads in the area of electronic notifications,” says Banker. “And, as a fairly significant-sized vendor, is now actively looking to grow its [solution] even further along those lines.”

Amit Sethi, manager of supply chain service lines and supply chain technology for Capgemini, sees Oracle’s renewed GTM effort as a key market driver. “The solution is being well received by Oracle Transportation Management customers,” says Sethi. “And while it lacks the ability to handle the automated, seamless import and export of documents, the solution does include all of the tools necessary to manage screening and classifications.”

INTO THE LOOKING GLASS

With freight costs rising, capacity constraints looming, and the complexities of global trade on the rise, the analysts interviewed for this article all concur that GTMs will continue their slow-but-sure infiltration into today’s supply chains. How quickly that growth occurs remains to be seen, and will be highly dependent on whether or not logistics managers can present concepts like ROI and the minimization of “total landed cost” to the powers that be.

“Risk avoidance and compliance are the primary drivers of the GTM market, but for that market to continue to grow we have to add the reduction of total landed cost to that list,” says Sethi. “That hasn’t happened yet, but we do expect a shift in that direction over the next few years.”

McNeill, who estimates that GTM adoption rates have grown at 4 percent to 7 percent over the last five years, expects those rates to remain around 4 percent to 5 percent in 2012. “We still see companies investing in GTM software and we don’t expect that to change this year,” says McNeill, who expects the push for better supply chain visibility to be a key driver for such solutions over the next few years. “Companies want to get a better handle on where their shipments are worldwide so that they can make more educated decisions about inventory.”

McNeill also expects more shippers to turn to SaaS-based GTMs as a way to get up and running quickly, and more cost effectively, on a solution that their global partner can hook into without having to purchase and install software. Also in the cards are more entry-level GTM offerings that give shippers a “taste” of what the solution’s capabilities and benefits are without having to buy the entire solution. “These options will help vendors get new customers using GTMs,” says McNeill, “without having to make the full-blown, upfront investment.” □

Bridget McCrea is a Contributing Editor to Logistics Management

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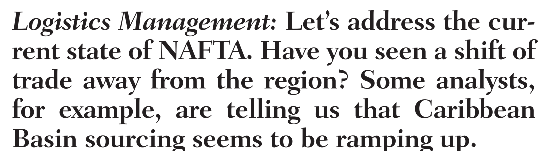
2012 Cross-Border Roundtable: Will hemispheric trade gain traction?

While Mexico and Canada remain our primary international trade opportunity, *LM*'s analyst panel tell us that bolder players will be exploring more distant markets once the Panama Canal expansion is complete.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

Last year at this time, trade analysts speculated that the risk/reward for U.S. shippers doing business in Mexico and Canada was approaching a positive balance. However, our panel tells us this year that hemispheric alternatives may be looming and that some multinationals may hedge their bets by investing in "hybrid" transportation solutions in the future that include air and ocean options. By all appearances, it may not be just "surface modes" forever.

Joining us in our annual discussion of the state of cross-border trade and the North American Free Trade Agreement (NAFTA) are William Neilson, holder of the J. Fred Holly Chair of Excellence and professor of economics at the University of Tennessee's College of Business Administration; Foster Finley, managing director and head of the Logistics & Distribution Practice at AlixPartners, an international trade consultancy; Daniel Griswold, the newly-named president of the National Association of Foreign-Trade Zones; and Edgar Blanco, research director at the MIT Center for Transportation & Logistics.



***Logistics Management:* Let's address the current state of NAFTA. Have you seen a shift of trade away from the region? Some analysts, for example, are telling us that Caribbean Basin sourcing seems to be ramping up.**

Foster Finley: This varies by industry, with garments and other soft goods certainly being sourced from the Caribbean Basin. However, we've seen a recent shift in NAFTA sourcing from industrial companies that want to bring the supply base back from China and other Far East locations—usually to Mexico.

Daniel Griswold: Our trade with Canada and Mexico has matured as NAFTA has become fully implemented. They remain our two largest trading partners in terms of two-way trade, but their share of total U.S. trade has been in slow decline for the past decade as the emerging markets grow as a source of imports and as a market for exports.

Edgar Blanco: Actually, there has been a reduction of sourcing from Mexico as a consequence of the financial crisis and re-alignment of global supply chains. The violence surge in Mexico has had some impact, but the Mexican economy is still growing at a healthy pace (3 percent to 4 percent). I have not seen any large scale threat from the Caribbean Basin as of yet.

William Neilson

Foster Finley

Daniel Griswold

Edgar Blanco

***LM:* Do you agree that today's shippers are more likely to "go global" by starting in Canada and Mexico before exploring more far flung markets?**

Griswold: I would say that's still true. There are more than 250,000 U.S. companies now exporting, and a large share of them are small- and medium-sized enterprises—but most still only sell in one other country. Canada and Mexico are the most common lone markets because of proximity and NAFTA, but that could be changing as the Internet and 3PLs make global commerce more accessible for smaller companies. Keep in mind that more markets are opening due to the recent U.S. trade agreements, such as the U.S.-Dominican Republic-Central America Free Trade Agreement (CAFTA) and new agreements with South Korea, Colombia, and Panama.

William Neilson: I agree with Daniel. If companies are not currently concentrating on trade in this hemisphere, they should. With the uncertainty surrounding Europe, especially the Euro, countries with close economic ties to the United States are likely to provide more stable customer bases and more stable supply bases than countries with weaker ties. Canada and Mexico are the obvious choices here, although any country whose economies are insulated from Europe would also be an attractive partner.

Finley: I don't necessarily agree. This will vary by commodity and industry, but there are still opportunities to skip the closest "near shore" option and outsource to Asia or Eastern Europe. However, the NAFTA option is becoming more and more attractive due to currency, proximity, labor rates, capabilities, and transportation considerations.

Blanco: Foster makes a good point. With so much growth in China, Brazil, and India, I see more companies starting on those distant emerging markets first. Mexico and Canada are attractive, but with 9 percent to 10 percent growth rates and an emerging middle class, shippers are looking at those emerging markets more aggressively. I can see a certain group of risk adverse shippers keeping their investments "close," but the emerging markets are too important. Also, there will be very little "learning" from starting in NAFTA. The lessons are confined to one region, so you may be better off going to larger markets right away.

***LM:* When we talk of cross-border we generally think of truck, rail, and intermodal. Should shippers be looking at sea and air options as well?**

Griswold: Absolutely. As the stuff we produce becomes more technologically sophisticated, the ratio of weight to value keeps dropping. This means air freight is becoming more and more important. More than half the value of what we export to the rest of the world now leaves the U.S. on airplanes, not ships. This is a big reason why foreign-trade zones are located near major airports as well as seaports.

Neilson: That's very true, and for the last few years we have seen large increases in volatility in virtually every market. New economic research shows that companies can increase their profits by using faster transport, specifically air transport, in response to rapid market fluctuations. The basic strategy involves using slower, more traditional transport for fairly stable demand situations, but faster transport for more volatile ones.

Finley: Conceptually this makes sense, but execution has been a challenge.

Blanco: I agree with Foster. I don't see air and ocean being a major player within NAFTA, but it will always be in the mix. Once the Panama Canal opens there may be some new opportunities for sea with new feeder routes being developed, but they will be limited.

***LM:* What role is software and technology—GTM systems for example—playing in meeting today's cross-border trade challenges?**

Blanco: I'm always bullish about the role of technology in facilitating global operations. Software enables visibility and agile decision-making, and any business without basic tracing or tracking software will not survive in a competitive environment.

As companies go global, the same applies for trade management and other supply chain solutions. Spreadsheets will get you by while you sort out the operational aspects, but to achieve growth, more complex investments are needed like master data or sales and operation planning (S&OP) enabling solutions.

Neilson: I believe the use of high-quality supply chain management software should increase, and there are two good reasons. First: shipping delays are expensive. Recent economic research shows that an extra day in transit has a cost, on average, equal to about one half of a percent of the *ad valorem* shipment value. Second: so much of shipping involves informational inputs, and companies that try to hold down inventory costs want to keep their shipping schedules tight. Software can help with this.

***LM:* What are the new regulatory obstacles that surfaced for cross-border shippers over the past 12 months?**

Finley: While the never-ending HOS saga is still a dark cloud over the heads of shippers and carriers, the most interesting developments are certainly the expansion of the NAFTA cross-boarder traffic regulations for Mexico and the increased weight restrictions for northern intra-state traffic.

***LM:* One might argue then that choosing the right transportation partner cannot be overstated. We keep hearing about the advantages of using a 3PL or 4PL, or going directly to the carrier for cross-border trade. Where do you come down on these trends?**

Finely: We believe that the companies that have made the investments in the recent years to enable the NAFTA super-highway will continue to dominate. The use of 3PLs and 4PLs are excellent strategies to gain specific capabilities and leverage within a given carrier base, but be careful which partner you choose. When capacity is outstripped by demand, which is starting to occur right now, not all 3PLs and 4PLs are created equally. You want to be able to secure capacity at the right time and at a fair cost, which may become more challenging in the near term.

Blanco: My advice is to ignore the trends. The value of 3PLs or 4PLs is very dependent on the operational strategy. What are the skills in my company? Will logistics be part of my competitive advantage? How do I transition in/out a 3PL/4PL? What are the risks of going directly to carrier? My advice has always been to not rule out any option. You need to do your homework, and you may have the strength in house.

***LM:* Can you provide a forecast for cross-border trade growth?**

Neilson: The elephant in the room for any forecast is the state of the world economy. Although the data show that trade flows have made up the ground they lost in the recession, concerns are growing that this upward trend might end soon. Right now, the world economy is being driven by pressures for austerity in Europe and also possibly in the U.S.

And while these austerity measures might have positive implications for long-run growth, it's hard to see how they would lead to more international shipments, or even domestic shipments, in the short run, especially because the World Bank and others predict a global slowdown for 2012. Countering this, however, is the increased trade out of Japan as it recovers from last year's earthquake and tsunami.

Griswold: Historically, trade growth depends heavily on the underlying growth of the domestic and global economies. If the U.S. can maintain a normal rate of growth of say 2.5 percent to 3 percent, and the world economy can keep chugging along despite worries about Europe, U.S. trade will probably keep growing at its historical norm of around 7 percent. If major economies tank, then all bets are off and trade will suffer another downturn, as it did during the 2008-2009 recession.

Finley: I'll add that considering the supply shortages of industrial and electronic components from Japan and Thailand, energy production in Canada, and the recent trend in near shoring, growth in cross-border trade should continue to accelerate.

***LM:* The consensus is that growth is a given. The one question that remains, however, is what kind of investment in infrastructure here in the U.S. and abroad will be needed to make this sustainable?**

Griswold: We need to maintain and modernize our infrastructure to realize the full benefits of trade, there's no doubt. That means expanding port facilities, dredging harbors and upgrading docks to accommodate the post-Panamax vessels that will starting arriving at Atlantic and Gulf ports after 2014. This shouldn't require more government borrowing; in fact, trade infrastructure can pay for itself through fees and increased economic activity as well as private development.

Blanco: I believe that the U.S. needs to upgrade its intermodal infrastructure more than anything else. With volatile fuel prices and increased focus on sustainability, a more fine-tuned intermodal infrastructure will make us competitive in this hemisphere. ☐

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Risk management: Welcome to the new

As supply chains continue to become more global and complex, the risk of disruption intensifies. Yet while most companies recognize the increased risk potential, many are ill prepared to handle a disruption. This article argues for a new set of risk management techniques in a world where heightened supply chain risk is now part of the game.

BY GREGORY L. SCHLEGEL AND ROBERT J. TRENT

Hurricanes, earthquakes, tsunamis, tornadoes, and billowing ash from obscure volcanoes all have some things in common. Over the last several years each has been featured prominently in the news. And each has had the inevitable effect of disrupting global supply chains.

Yet these kinds of disruptions were not on the minds of Astella Pharma executives on June 17, 2009. On that night, thieves stole a trailer containing $10 million of the company's pharmaceutical products from a truck stop in Tennessee. What followed was a harsh lesson in the realities of supply chain risk.

Once the final tallies were made, the actual cost of the stolen product was just a fraction of the losses eventually suffered by Astella. Acting on advice from the U.S. Food & Drug Administration, the company quickly contacted every party in its supply chain, ranging from wholesalers to hospitals, warning them of the stolen drugs. Then, as a preventive measure, Astella withdrew from the marketplace all drugs with the same lot numbers as those that were stolen.

Some of the stolen pharmaceuticals required strict climate control (something the thieves were likely not too concerned about), thereby necessitating the return of all product with those lot numbers. The $10 million theft eventually cost the company $47 million, a figure equivalent to 10 percent of its North American sales for that quarter. Welcome to the world of supply chain risk—a world where sometimes the only thing we should expect is the unexpected.

Gregory L. Schlegel CPIM, CSP, is vice president of business development at SherTrack LLC, adjunct professor of supply chain risk management at Lehigh University and a past president of APICS. He can be reached at schlegel01@earthlink.net. Dr. Robert J. Trent (rjt2@lehigh.edu) is director of the supply chain management program at Lehigh University.

This article argues that the risk management techniques currently in place, most of which are put forth with the best of intentions, may not be sufficient to allow supply chain organizations to attain risk management excellence in a dangerous world. An innovative set of approaches is needed in a world where heightened risk represents the new normal.

UNDERSTANDING RISK AND RISK MANAGEMENT

Before presenting these innovative ways to address supply chain risk, we can make some relevant observations based on extensive experience and research with leading firms.

First, organizations over the last decade have become increasingly aware of the need for risk management. Almost 75 percent of risk managers say that their company's supply chain risk levels are higher than in 2005. Over 70 percent say that the financial impact of supply chain disruptions has also increased.

Second, too many firms are ill prepared to handle the supply chain risks that may come their way—even though most managers recognize that supply chain risk is a growing concern. A recent study revealed that for firms with less than $500 million in annual revenue, only 25 percent take a proactive approach to risk management.

Third, while many risk categorizations and topologies exist, we see a convergence of interest around the key categories of supply chain risk, particularly operational and financial risk.

Finally, as it relates to mitigating or lessening the impact of risk events, the standard approaches typically adopted fail to reflect bold or innovative thinking. Over the next few pages we'll present some new and exciting ways to move beyond the obvious as it relates to supply chain risk management.

RISK: OUR PERSPECTIVE

Anyone who writes about risk has their own perspective on the concept. So, what is our perspective? We view risk

normal

Peter Dazeley

as the probability of experiencing a less-than-desirable event that affects one or more parties within a supply chain. A standard perspective of risk is that it involves the possibility of loss or injury. This leads to risk management as a key part of the overall risk discussion.

With that said, we'd like to provide a grounding definition of risk management from APICS—the Association for Operations Management. APICS defines risk management as follows: "In the context of supply chain management, risk management involves dealing with uncertainty in supply, transformations, delivery, and customer demand. The uncertainties can be the result of such forces as yields, timing, pricing, and catastrophic events."

Few would argue that when risk events occur, they have the potential to negatively disrupt business objectives. To emphasize this point, consider the impact of supply chain disruptions on businesses worldwide.

It is hard to talk about risk without understanding some important concepts. Two such concepts are vulnerability and resilience. Vulnerability represents the combination of the likelihood of a disruption and its potential severity. Resilience refers to the ability to recover from disruptions of any type. Obviously, resilience will differ according to the risk occurrence and the steps taken to help with a recovery. A company with redundant suppliers located geographically apart, for example, will have higher resiliency when a disruption hits a certain part of the supply chain than a company with only a single source of supply.

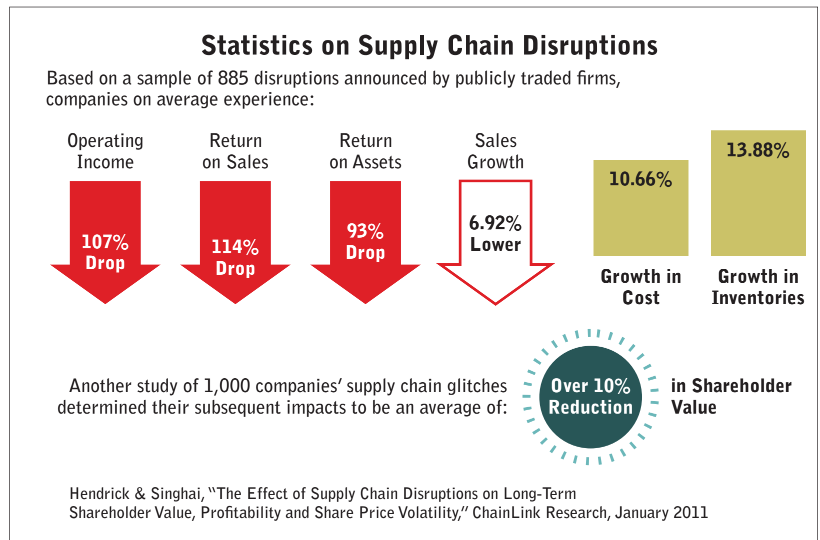
An important consideration when evaluating risk is the tradeoff between risk aversion and the willingness to accept risk, or what is called a risk appetite. Entrepreneurs usually have a high risk appetite and a low risk aversion. Those who are completely risk averse, on the other hand, would never invest in the stock market or maybe even drive a car. A common misperception, both in business and at a personal level, is that risky endeavors are something to be avoided. Yet people who never take any kind of risk likely will not achieve much in the way of success.

A host of mega-trends are in play that ensure risk management will remain an important topic for the foreseeable future. Here are just a few from PRTM's recent *Global Supply Chain Trends 2012* report.

- 75 percent of study respondents cite demand and supply volatility with poor forecast accuracy as the biggest roadblock to success during upturn.
- 85 percent expect complexity to grow significantly through 2012.
- 75 percent expect an increase in the number of international customers.
- 66 percent expect a higher number of product variations to fulfill customer requirements.

The final report stated this fundamental finding relative to uncertainty, complexity, and risk: "Most participants are looking to international customers for future market growth, yet few are prepared for the complexity that results from serving global

customers with regionally customized products." With that said, we feel comfortable stating that an era of heightened risk represents the new normal.



INNOVATIVE APPROACHES TO RISK MANAGEMENT

Risk management surveys invariably ask supply chain managers what they are doing about risk. The responses provided, while often insightful, are usually predictable and not necessarily on the cutting edge of risk management.

Popular approaches include ongoing evaluation of supplier financial health and expanded supplier pre-qualification standards. Other techniques mentioned include adopting multiple vs. single supplier sourcing, creating better supply chain traceability, and selecting suppliers closer to the end market.

But where are the approaches that are daring, non-conventional, and on the cutting-edge of risk management? What are the risk tactics and techniques that not everyone else is doing but that could be real game changers? We offer the following "game-changing" ideas for your consideration.

Enterprise-wide risk management framework within S&OP: Enterprise-wide risk management (ERM) includes a set of methods and processes from the insurance, finance, and risk sectors that have been around for some time. The Risk & Insurance Management Society (rims.org) defines ERM as follows: "The methods and processes used by organizations to manage risk and seize opportunities related to the achievement of their objectives. ERM provides a framework for risk management, which typically involves identifying particular events or circumstances relevant to the organization's objectives, assessing them in terms of likelihood and magnitude of impact, determining a response plan, and monitoring progress."

This framework consists of eight elements: internal environment, object setting, event identification, risk assessment (type of risk and magnitude), risk response plan (what to do, who is responsible, and how to manage the risk), control activities, information-communication, and monitoring.

Companies on the leading-edge of supply chain risk management, such as Cisco, Coca-Cola, Ericsson, Nokia, and Bayer Crop Science, have begun to integrate the ERM framework into their mature S&OP process. This framework provides companies with mature S&OP processes a formal construct—a roadmap—to begin SCRM. This greatly enhances the potential for success of the endeavor.

Scenario planning using probabilistic methods: AMR Research, now part of Gartner, has been speaking about the complexion of the 21st Century supply chain for some time. And during that dialogue, the topic of probabilistic planning continuously arises. This planning process is supported by stochastic demand management and dynamic inventory planning. How do these approaches open up new opportunities to address supply chain risk management? Let's first get our grounding with a definition from the APICS dictionary.

The APICS dictionary says that stochastic models are "models where uncertainty is explicitly considered in the analysis." This approach differs from deterministic models that feature statistical procedures that do not take into account uncertainty. Stochastic models represent the uncertainty of demand with a certain set of outcomes (i.e., a probability distribution) and these models also suggest inventory management strategies under probabilistic demand.

Stochastic and statistical methodologies are not new. Academia, the pharmaceutical and medical industries, Wall Street, insurance, and banking all have been using these methods to evaluate and mitigate risk for over 50 years. But they are new to the supply chain world.

Leading-edge approaches such as stochastic optimization (SO) methods are algorithms that incorporate probabilistic (random) elements, either in the problem data (in the objective function or the constraints, for example) or in the algorithm itself through random parameter values. This concept contrasts with the traditional deterministic methods where the values of the objective function are assumed to be exact and the computation is determined by the values sampled or observed. Deterministic models are varied and include linear programming, integer programming, simplex method, time series analysis, and regression models.

We are beginning to witness this probabilistic methodology supporting scenario planning in the context of supply chain risk management. What does this process look like? It starts with building a flow model of the enterprise.

Then, you populate the model of the enterprise with base case data from an ERP system, identifying the historical behavior and uncertainty of all relevant factors. This includes elements such as lead times, capacities, demand, production, inventory, and more.

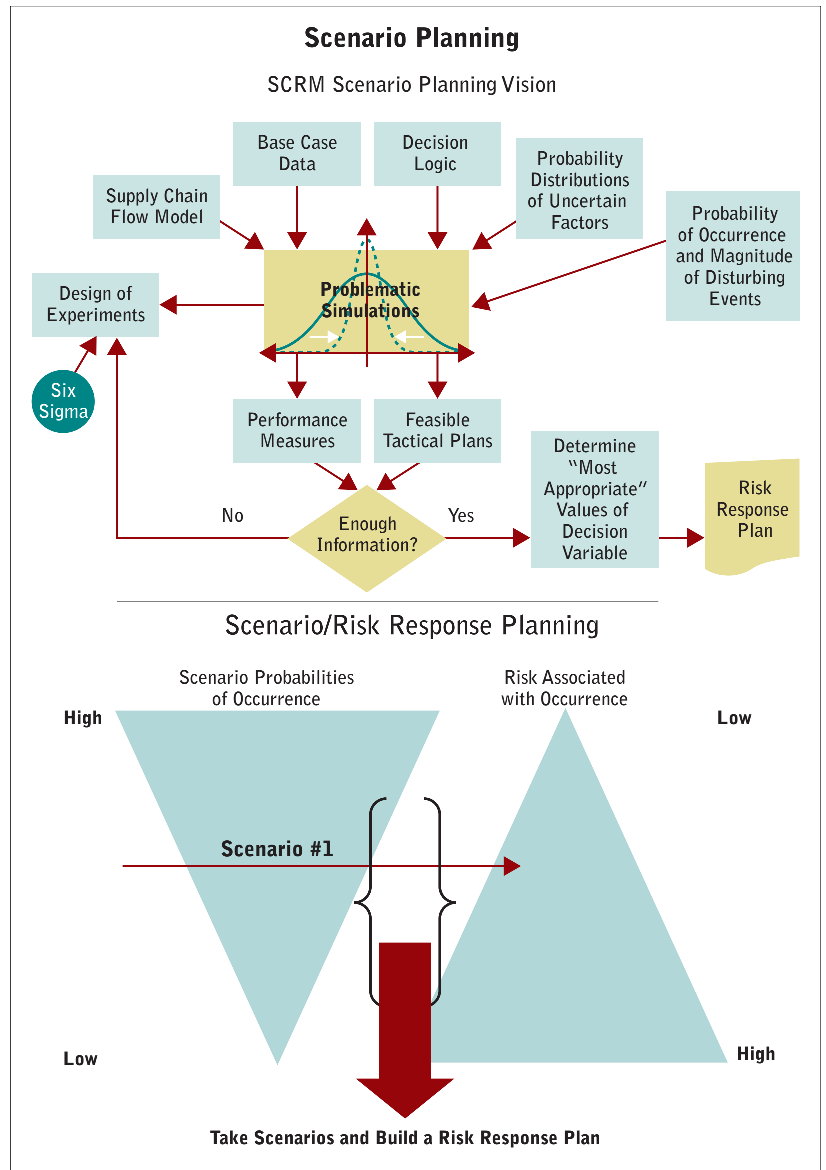
Next, you begin to develop "what-if" scenarios, looking at situations such as demand increasing by 30 percent, demand decreasing by 30 percent, or lead times decreasing. Risk planners next predict the effects of these changes on service, revenue, capacity, inventory and more, along with their potential probability of occurrences.

With these assumptions codified and historical data in hand, you are ready to run discrete-event simulations across the entire enterprise to review the outcomes and their statis-

tical strengths. The outcomes normally take the shape of histograms—sensitivity curves with confidence intervals, and probabilities of occurrence along with risk assessments.

This continuous "execution" of the model, requiring several hundred iterations, can continue until the outcomes, per scenario, are considered statistically significant. This task is accomplished through the use of sensitivity analysis, optimized response curves, and design of experiments (i.e., structured and systematic testing of the process).

The outcomes of the scenarios are then prioritized based on their probabilities of occurrence. The final step is to develop a risk response plan (RPP) for the scenarios deemed critical to the enterprise covering the tactical S&OP horizon. This approach represents risk management at its sophisticated best.



TECHNIQUES AND TACTICS

The emerging techniques, tactics, and tool set enablers designed to manage risk across and end-to-end supply chain are growing rapidly. In fact, the landscape has become much too large to discuss in detail in this article. However, it's valuable to take a glimpse at some of the more promising developments.

One of these certainly is demand management that uses stochastic pattern recognition to create statistical confidence intervals, develop sense-and-respond predictive analytics, and build scenario plans. Within manufacturing, early adopters are leveraging demand-driven predictive manufacturing (DDPM) methods to model their complex plants. They are running "what-if" scenarios based on planning or event-driven situations to ensure supply chain flexibility and profitable response.

In the area of inventory, leaders are adopting stochastic approaches to planning global inventory targets, taking into account risk levels, historical "pinch-points," and the element of uncertainty by calculating probabilities of occurrences. And in logistics, leaders are developing global supply chain network models that identify three critical information flows—commercial, logistical, and financial—that provide opportunities for global profit optimization through optimal cash conversion cycle management.

Tool sets or enablers also will play an increasingly important role in risk management. The possibilities include massive teraflop databases; discrete-event simulators; business intelligence routines to scan, sift, and identify patterns; predictive analytic engines to alert and recommend actions; and web-based risk assessment software that quantifies risk.

In addition, we expect to see the growth of web-based benchmarking programs that compare company-specific risk programs to best-in-class practices, complete with recommended actions to achieve best-in-class status. Finally, balanced scorecard dashboards are becoming available that afford a global status of risk based on new metrics.

FACING THE NEW NORMAL

Experienced managers understand something important: Supply chain success demands an understanding of supply chain risk. In fact, success and risk are now almost inseparable. This inseparability demands the development of risk management strategies and approaches. Unfortunately, risk planning can often come across as mundane busywork, particularly when one objective of risk planning is to never have to use the plan.

One thing we know for certain, however, is that global supply chains and global supply chain risks are highly correlated. More than one company has come to realize that failing to take these risks into consideration can have catastrophic consequences. We believe that supply chain risk management is a key enabler in the quest toward a resilient and ultimately sustainable supply chain from an economic, service, and ecologic perspective. ☐

Mobility has arrived

Mobile and wireless technology is making a measurable impact on today's warehouse & DC operations. Savvy users are going multi-modal, pulling multiple technologies and software capabilities together to increase productivity, cut pick-rate errors, and increase inventory accuracy.

BY **MAIDA NAPOLITANO,** CONTRIBUTING EDITOR

For a number of years now, mobile computing devices have been electronically capturing data on assets and resources and uploading them to host systems over wireless networks. But thanks to the raging successes of smartphones and tablets, as well as the rise of much improved wireless networks, mobility solutions for logistics management are reaching new levels of ubiquity.

"You're not going to see any large warehouse or distribution center today operating without these types of technologies," says David Krebs, vice president of mobile and wireless practice for VDC Research, a market research and consulting firm. "It's too important and the benefits are too great for an organization not to make these investments."

A survey of mobility end-users recently conducted by VDC highlights the top three benefits achieved by today's enterprise mobility solutions: (1) improved real-time decision making; (2) increased mobile worker productivity; and (3) improved inventory accuracy.

Bruce Stubbs, director of industry marketing for Intermec, says the VDC findings certainly match up with what he's seeing from his customers. "Logistics professionals want access to accurate information and data, and they want to be able to proactively act upon it," says Stubbs. "The faster you get information that is actionable, the quicker you move a step ahead of your competition."

Mike Maris, senior director for transportation, distribution, and logistics for Motorola Solutions points out that by scanning bar codes, paper is eliminated. "It also eliminates the errors and delays associated with a paper-based operation," adds Maris. "This improves accuracy, adds efficiency, and improves the speed of how you do business."

With these benefits in mind, let's explore current trends in mobile technologies and how today's vendors and solution providers are helping logistics professionals put them to work inside the nation's warehouses and DCs. Then let's examine how a Canadian distributor of building and hardware materials made its real-life transition to mobility solutions, causing pick-rate accuracies to skyrocket while giving its customers real-time visibility into the status of their orders.

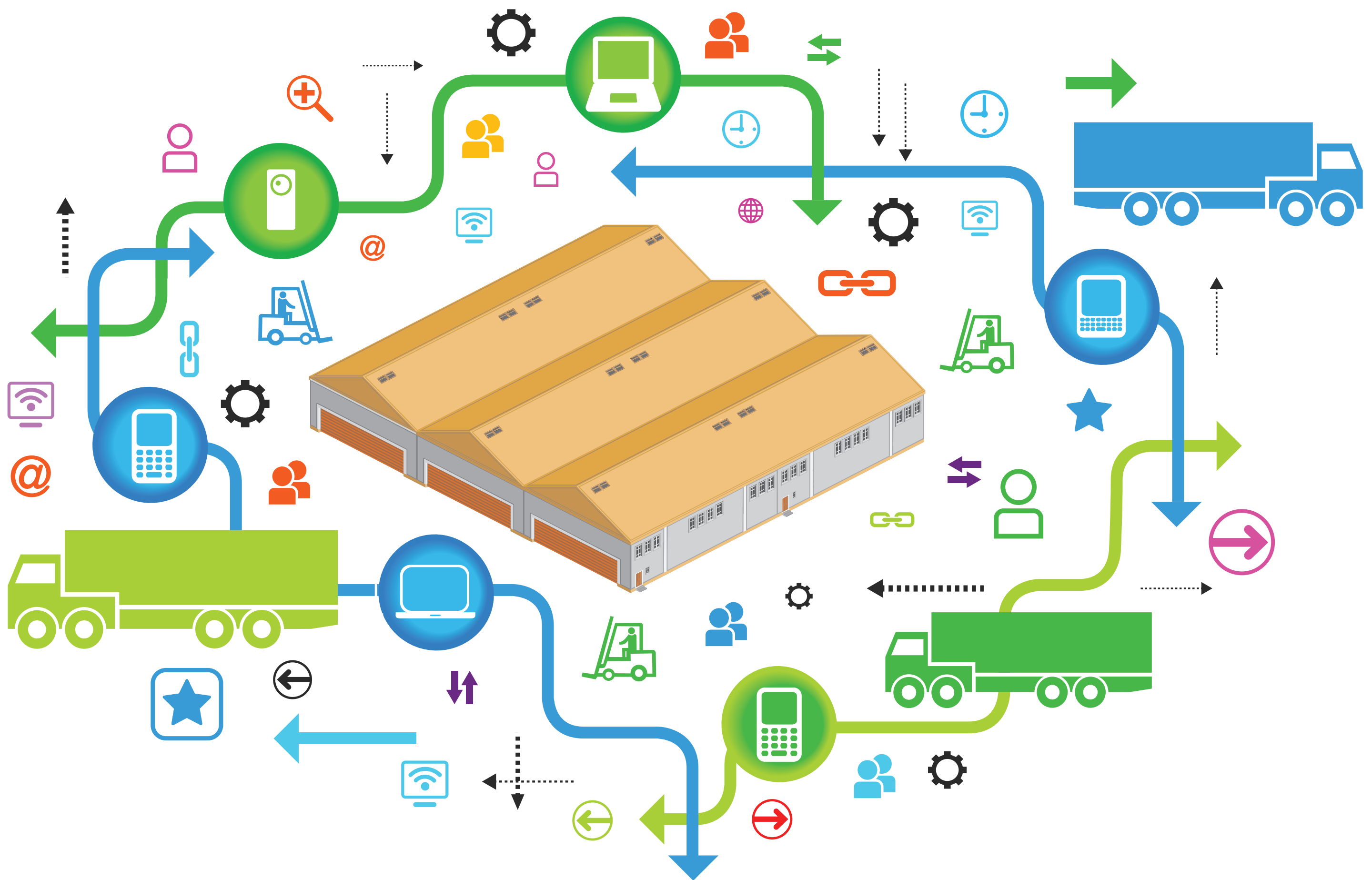
TRENDS IN MOBILITY

Mobile technologies have been rapidly evolving over the past few years. Rugged mobile computing devices—which, according to VDC, account for 88 percent of total mobile hardware used in the DC—are getting lighter and more ergonomic with better touch-screen user interfaces.

One clear trend has been the convergence within one device of multiple data capture technologies from bar code scanning to voice input to RFID. Workers have been going to multi-modal scanning bar codes for receiving while using voice for picking and RFID for loading completed pallets onto trucks.

Today's devices are also able to connect and automatically switch to multiple network infrastructures from wireless local area networks (such as Wi-Fi) for operations within the DC, then switch over to wireless wide area networks (such as 3G, 4G/LTE) for operations beyond the DC into a retailer's stores—without missing a beat. Some are equipped with Bluetooth connectivity for wireless printing and advanced GPS capabilities.

In response to the iPad, Motorola's even got a new rugged, industrial grade tablet—the ET1 Enterprise—a tablet so advanced it realizes when it's being dropped (via built-in sensors), according to Motorola's Maris. "It actually shuts down in nanoseconds to protect itself," he says. Although geared toward more enterprise applications, he can see the ET1 being used on receiving docks because it's equipped with a camera that can capture and send images of the condition of inbound merchandise to trading partners in real-time mode.



Finally, emerging supply chain execution software providers continue to integrate manufacturing, warehouse management systems (WMS), and transportation management systems (TMS). They're now leveraging Cloud technology as a common collection area for data shared among trading partners. "It's taking information and putting it into a readable format that the next partner can use," explains Maris. This integration and ability to easily share real-time information are allowing enterprises to quickly address problems as soon as they arise, seamlessly collaborate with trading partners, and basically revolutionize supply chain management.

MAKING MOBILITY AFFORDABLE

Despite these proven benefits and technological advancements, many small- to medium-sized companies are still hesitant to adopt mobility. Many are concerned that they can't handle the complexity of deployment—or the cost. But, according to VDC's Krebs, that's not necessarily the whole truth. He reports that small organizations are achieving deployment timeframes of 45 days or less, with many realizing ROIs of six months to 18 months.

Maris believes that the cost of software is what's keeping mobility out of reach for smaller firms. For them, he suggests looking into software as a service (SaaS) in an effort to get over the cost hurdle. "SaaS allows you to buy that software application for one user at a time," he says. "If I have a smaller warehouse with only 10 people, I can afford to have a WMS that's as good as somebody with a thousand people."

Along the same line, Intermec is now offering "hardware as a service." "Users can actually lease the equipment annually, making it more of an operating versus a capital expense," explains Stubbs. Last year, Intermec expanded this program by allowing customers to lease the devices on a short-term lease of a few months—just to get them through their peak season.

With 25 full-time employees, Independent Retail Lumber Yards (IRLY) Distributors is a perfect example of a small organization that's made the leap into a completely mobile solution. Not only did they come out on top, they came out swinging, reducing pick error rates by 50 percent while increasing productivity by over 30 percent. Here's how they did it.

IRLY DISTRIBUTORS MOBILIZES ITS OPERATION

IRLY Distributors is a co-op group of independent hardware and building materials retailers based in Surrey, British Columbia. This Canadian owned-and-operated company distributes 17,000 SKUs consisting of lumber, hardware, and building materials to 44 of its own retail stores and to over 250 customer locations throughout British Columbia and Western Canada.

IRLY had long been using paper-based methods to receive, store, pick, and ship merchandise in its eight-acre distribution campus that includes 105,000 square feet of covered rack storage and another 45,000 square feet of partially covered, shed-type space, they call their "yard."

When she started with the company in 2008, Susan Robinson, IRLY's president and CEO, recalls how she personally visited with the then 36 member retailers to get their feedback on how the DC was performing. It wasn't good news.

"Error rates were high and the ability to trace an order was low," says Robinson. "When our customers would call to check on the status of their orders, nobody could really tell them." As a result, sales people weren't making sales calls. They were too busy putting out fires and becoming an error corrections center. Customers were frustrated, and a few were actually taking their business elsewhere. And to top it all off, the economy was heading into a recession.

But Robinson remained undaunted. She gathered her team and recognized an opportunity. "We had good people who had been with us an average of 22 years, and we had systems in place that were capable of being improved," she says. With winter approaching and sales entering its slow season, there was no better time to improve IRLY's operation and significantly reduce their error rates.

IRLY had been working out of its ERP system for order fulfillment and to track inventory with some enhancements, but it was not nearly as robust as what a real WMS could give them. After some due diligence and checking into which systems their other trading partners were using, IRLY made the decision to purchase a WMS known for automating warehouse and distribution operations with real-time inventory information from Washington-based PathGuide Technologies.

The team then evaluated rugged handheld computers, setting up several stations with competitive equipment and asking employees to try each device and provide their feedback on which mobile computer they preferred. After recording and tabulating their feedback, the team selected Intermec's CK3 mobile computers and PM4i label printers in early 2009. After just six months, a fully mobile, wireless, and paperless DC was up and running.

How does it work? At IRLY's stores, store associates scan the shelf location associated with the product that needs replenishment and immediately downloads these orders to IRLY's system. Today, about 72 percent of all IRLY's store orders are received electronically this way.

Pickers then start scanning and picking products onto carts or pallets from three major zones: the high picks, the low picks, and the yard. In the yard, they may pick directly onto the deck of a truck or trailer. Next, pickers unload completed orders to a shipping box on the dock or directly into a waiting truck. At every step along the way the order is scanned, giving IRLY full visibility from receiving to shipping.

IRLY's trucking company then physically transports all completed orders to its stores. By the end of 2012, it plans to implement its own mobile tracking system so that drivers can capture an electronic signature with an arrival and departure time. "My dream would be that one day these two systems would be in alignment," says Robinson. "We want the customer to be able to go to one place, track their order and see the entire transaction from beginning to end."

At the store's receiving dock, workers scan each product into the store's receiving system, automatically updating the store's inventory.

Due to the new accuracy, in the past year 10 percent of its stores dropped their receiving procedure, loading inbound merchandise directly to store shelves. Now, IRLY sends detailed shipping information to them, so all the stores have to do is hit "receive." Their inventory is updated, and the product becomes available for sale the minute it hits the dock.

It's been three years since the system launched, and the benefits have been rolling. Productivity per labor hour has increased from 22 lines per hour to 30 lines per hour; pick error rates have come down by over 50 percent; and inventory accuracy increased from 85 percent to plus 95 percent. And, according to Robinson, the return on the investment was a mere 18 months.

While the building supply industry in Canada declined 10 percent in 2009, IRLY's business grew by 15 percent in 2009 and another 15 percent in 2010. According to Robinson, sales people are finally selling instead of putting out fires and customers are calling to plan new programs. "We used to spend a lot of time talking about errors that have happened in the past," says Robinson. "Now we're spending our time looking at ways to improve in the future. That's a big change." □

—Maida Napolitano is a Contributing Editor to Logistics Management

The smartphone or the rugged handheld?

THE SUCCESS AND RELATIVE AFFORDABILITY OF smartphones have many wondering whether they can use the device on the warehouse floor. For now, our experts advise against it and suggest limiting the applications of smartphones' to supervisory level employees.

"Tablets and smartphones aren't very rugged at this point," says Intermec's Bruce Stubbs. "When dropped repeatedly from eight feet to concrete, smartphones are going to break and will need to be replaced, thus increasing the total cost of ownership." There are also concerns about the smartphone's functionality in wet or extreme temperature environments, adequate battery life, and theft—because workers can easily use the device outside the DC.

However, there have been some recent successes with commercial (non-rugged) VoIP phones as a more cost-effective method to deploy voice for order picking. "But it's currently not robust enough, and you can't do any scanning or any manual data key input," says VDC Research's David Krebs.

So what's the device of choice for operations within the DC? According to VDC's latest research report *2011 Enterprise Mobility Solutions Market Intelligence Service, 8th ed.: Transportation & Warehousing*, rugged computing solutions represent "88 percent of total hardware deployed to support warehouse and DC-related workflows." These are equipped with automatic identification and data capture (AIDC) capabilities and can be handheld, forklift-mounted, or wearable.

—Maida Napolitano, Contributing Editor

The missing link in your supply chain.

SUPPLYCHAIN MANAGEMENT REVIEW

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8 The Supply Chain Top 25: Leadership in Action
The 2011 rankings of the Top 25 supply chains from Gartner Inc. are in. They include repeat winners and some new entrants. Perhaps even more important than the actual rankings, says Gartner Research Director Debra Hofman, are the lessons that can be learned from analyzing the leaders. This year, six specific qualities stand out.

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In 2007, *SCMR* ran an article on Walmart's sustainability program, focusing on eight specific initiatives being pursued. Four years later, the author of that original article, Erica Plambeck of Stanford, and colleague Lyn Denend revisit those initiatives to assess just how Walmart is doing on the sustainability front.

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A new global survey from PRTM confirms the importance of operational flexibility in supply chain success and identifies five levers that leaders employ to make it happen. The consultants report that the financial and performance advantages of improved flexibility can be profound. They outline five basic steps that companies can take to start realizing those benefits.

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Mobile devices are everywhere these days. But what's the real potential of mobility in the key supply chain processes. And what's the best way to identify and tap into that potential? Sumantra Sengupta of EVM Partners says the first step in answering these questions is to carefully determine your "Mobility Index." This article tells how it's done.

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Smart investment in supply chain infrastructure—and in particular automated materials handling and distribution systems—can pay big dividends. Medco and Staples have proven that convincingly, as these case studies demonstrate. Their stories point to seven key takeaways that supply chains professionals in any business sector can learn from.

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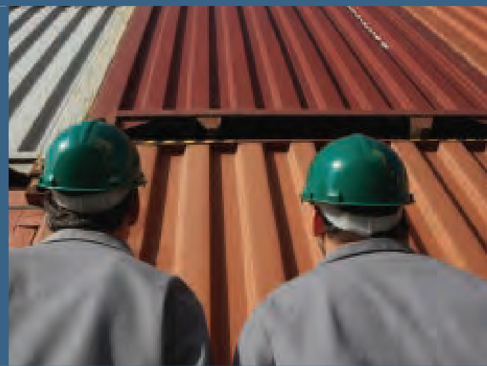

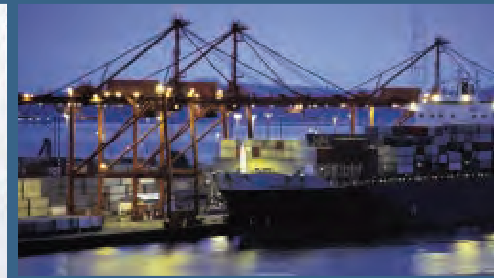

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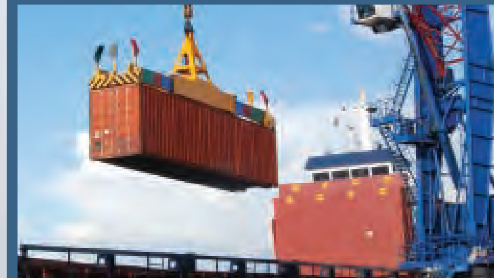
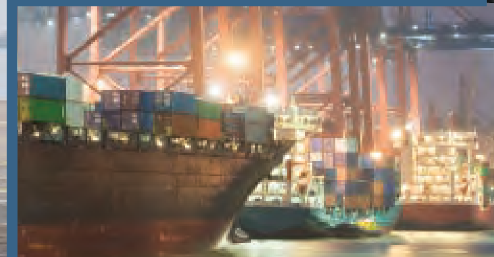
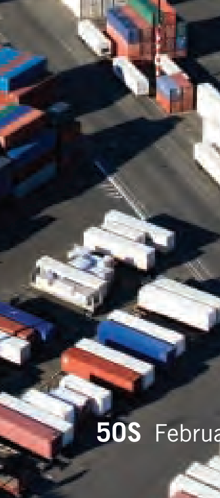




A SPECIAL SUPPLEMENT TO:
Logistics MANAGEMENT

2012 U.S. PORT UPDATE:

Full steam ahead

The Panama Canal expansion isn't the only factor driving infrastructure improvement efforts. Count population growth, increased exports, new trade agreements, global competition, and shifting trade lanes as other elements pushing aggressive U.S. port investment and expansion.

By **Patrick Burnson**, Executive Editor

According to Kurt Nagle, CEO of the American Association of Port Authorities, a few important details are often missed when discussing the much anticipated Panama Canal expansion.

For example, he's quick to point out that this development will not only better enable eastbound cargo to reach Gulf, Atlantic, and Great Lakes ports, but it will also encourage more east-west cargo flow by enabling larger ships from parts of Europe, South America, and Africa to more easily reach U.S. West Coast ports.

"Additionally, West Coast ports are also actively looking to compete by investing in their infrastructure and keeping rail rates competitive," Nagle says. "In 2010, West Coast seaports served more than 190 million consumers, or 63 percent of the total U.S. population, and are expected to serve more than 220 million consumers in 2030."

Nagle also notes that as cargo volumes continue to rise, the expansion of the Panama Canal may serve as a "relief valve" by providing access to alternative seaport regions when cargo volumes periodically reach their peak during particularly busy times of the year. Meanwhile, ports on all coasts are readying themselves for projected growth based on a number of factors currently unfolding.

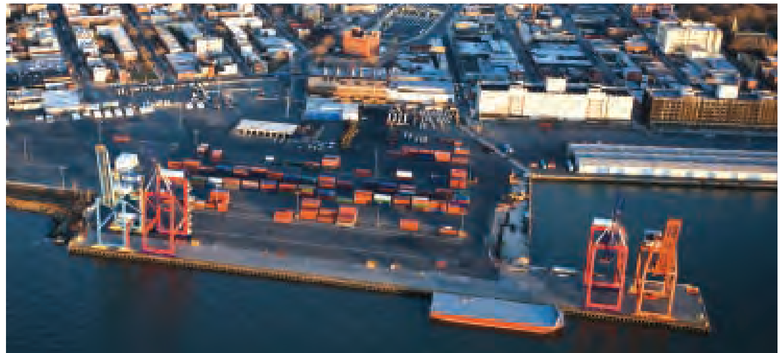
East Coast investment on track

Zepol Crop. a leading trade intelligence company, reports that the Port of New York/New Jersey saw a 2.6 percent increase in containerized imports in 2011 and is forecasting sustained throughput for 2012.

This explains why the New York/New Jersey plans to invest approximately

$230 million this year. One major area of focus in 2011 was to greatly enhance the port's existing internal road network. Work began to widen McLester Street in the Elizabeth-Port Authority Marine Terminal and to widen and realign Port Street and Brewster Road.

In addition, the Port Authority continues to work on the 50-foot harbor-deepening project that's now 80 percent complete and continues the development of its ExpressRail intermodal system. These projects are all designed to provide unimpeded ocean and landside access capacity to and from the port for the expected future growth in cargo.



The Port of NY/NJ saw a 2.6 percent increase in containerized imports in 2011 and is forecasting sustained throughput for 2012.

Last June, the Port Authority also reached agreement on a restructured lease with Port Newark Container Terminal that will provide $500 million in private capital investment to upgrade the existing facility into a state-of-the-art terminal. "This will guarantee an annual increase in cargo container volumes from Mediterranean Shipping Company, the world's second largest shipping company," says Port Commerce Director Richard Larrabee. "We're preparing for the future cargo growth we expect to receive, and the economic activity it will generate."

The Port of Baltimore continues to demonstrate tremendous progress despite a challenging global economy. Buoyed by a strong year in 2010, it now ranks 11th nationally (up from 12th) for the total dollar value of cargo and 13th (up from 15th) for the amount of cargo tonnage handled, according to recent statistics released by the U.S. Census.

And the news just gets better for 2012. Hapag-Lloyd, the world's fifth largest container company, has launched a direct, weekly container service from North Europe to the port. Baltimore, which is positioned within the third-largest U.S. consumer market, is now the first U.S. port of call for this service. The new business is expected to bring about 30,000 containers annually through the gateway.

Maryland Governor Martin O'Malley praises public-private partner, Ports America Chesapeake, for "playing a vital role" in attracting this new business. "It demonstrates that our continued investment in the port of Baltimore is the right path to follow," he says.

Ports America Chesapeake provides stevedoring and terminal services at Seagirt Marine Terminal, which has access to the CSX National Gateway. Seagirt Terminal is also constructing a 50-foot berth and purchasing four super Post-Panamax cranes. According to terminal officials, the berth is ahead of its original schedule and will be finished in August 2012, two years before the completion of the Panama Canal expansion.

U.S. Containerized Imports for Specified Ports, In TEUs

U.S. PORT	2009	2010	2011	% CHANGE FROM 2010 TO 2011
Los Angeles, CA/Long Beach, CA	6,166,163	7,206,919	7,226,856	0.28%
Newark, NJ/New York, NY	2,325,581	2,672,228	2,742,564	2.63%
Seattle, WA/Tacoma, WA	1,121,648	1,430,927	1,297,806	-9.30%
Savannah, GA	907,291	1,086,132	1,097,917	1.09%
Oakland, CA	667,585	778,414	782,511	0.53%
Miami, FL	306,613	337,548	359,970	6.64%
Baltimore, MD	232,291	281,423	303,973	8.01%
New Orleans, LA	76,632	79,393	89,159	12.30%

SOURCE: ZEPOL

Southern Advantage

Like NY/NJ and Baltimore, the Port of Miami is also benefiting from importers' desires to service the large population and consump-

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tion markets on the East Coast via all-water East Coast routings from Asia. According to Kevin Lynskey, the port's assistant director, importers are also diversifying their inbound strategies in order to minimize potential disruptions to their supply chains. This enables them, says Lynskey, to take advantage of the shifting manufacturing points of origin from China to Southeast Asia, India, and Latin America.

JOSHUA ROBERTS/GETTY IMAGES

"Miami will be the closest U.S. port of call to the Panama Canal, and will be the only port south of Norfolk to be at 50 feet, which is the water depth that the ocean carriers will use to evaluate which ports they route the larger and more economic vessels to," says Lynskey. "Port Miami will also have on-dock rail service through Florida East Coast Railway (FEC)."

Lynskey adds that given the margin pressures that importers are facing in today's economic environment, Miami and FEC will be in position to significantly reduce transportation expense, inventory investment, and carbon emissions.

Late last year, when U.S. Secretary of Transportation Ray LaHood met with *Logistics Management* (*LM*) in Atlanta to receive our 2011 Logistics Executive of the Year Award, he paid a special visit to the Port of Savannah to see how it's expansion plans were coming along.

"The harbor expansion project is critical," LaHood told *LM*. "Savannah is the fastest growing and fourth largest U.S. container port today." He noted that with 44 percent of the U.S. population served by the Port of Savannah, the ocean cargo gateway is a natural for first inbound vessel calls. But other officials point out that infrastructure improvements will benefit outbound sailings as well.

Georgia Port Authority Board Chairman Alec Poitevint reports that Savannah's export volume grew 12 percent in 2011 and represented 53 percent of its overall volume. "Export commodities translate into new jobs for our entire region,"

"The [Savannah] harbor expansion project is critical. Savannah is the fastest growing and fourth largest U.S. container port today."

—Ray LaHood, U.S. Secretary of Transportation

Poitevint says. "And balanced trade will continue to drive development and commerce throughout the Southeast," he says.

Last month, the port began work on a 6,000-foot extension of the Mason Intermodal Container Transfer Facility. This project, designed to add more than 4,000 linear feet of rail track at two rail yards serving CSX and Norfolk Southern, will be an intermodal link for the port's Garden City Terminal. Last year, intermodal container transfers reached record levels, Poitevint adds.

Gulf Growth

Enhanced intermodal projects are underway in the Gulf port of New Orleans as well thanks to U.S. Department of Transportation's popular Transportation Investment Generating Economic Recovery (TIGER) grants program.

Currently, the money is being spent on rebuilding a specialized rail yard at the Louisiana Avenue terminal along the Mississippi River. The overall project has two components: construction of a new 12-acre freight rail intermodal terminal; and resurfacing and fortifying a four-acre storage yard that is used for ultra-heavy project cargoes.

The project's objective is to reduce congestion, facilitate the movement of marine and rail cargo, stimulate international commerce, and maintain an essential port asset in a state of good repair. "The timing for such a project for New Orleans could not be better," says Walter Kemmsies, chief economist for Moffatt & Nicol, a port consultancy. "We anticipate a surge in demand for U.S. agricultural exports over the next 10 years; and if New Orleans did not get something underway now, it would risk losing business to neighboring ocean cargo gateways."

At the same time, Port of New Orleans officials are hailing Louisiana's Congressional delegation for their efforts to direct vital maintenance dollars to

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the U.S. Army Corps of Engineers to restore the Lower Mississippi River deep-draft channel to its authorized dimensions.

"This is tremendous news not only for the Port of New Orleans and the local maritime community, but for the growers, producers, and manufacturers in the 32 states that depend on the Lower Mississippi River to get their goods to global markets," says Gary LaGrange, the port's president and CEO.

Enhanced intermodal projects are underway in the Gulf port of New Orleans thanks to the U.S. DOT's popular TIGER grants program.

West Coast resilience

Oddly enough, exports were the big story on the U.S. West Coast, too. For the second consecutive year, the Port of Los Angeles—a huge inbound destination—experienced record-breaking exports as outbound container volumes surged 14.5 percent in 2011 compared to 2010.

Furthermore, imports also increased 2.3 percent compared to the previous year. Total annual volumes, including empty containers, rose 1.4 percent. Not surprisingly, the port is investing $1.5 billion in capital improvements over the next five years.

"Last year was our second straight year of record exports, and it's an example of how our port is prepared to handle a shift in global trade patterns," says port Executive Director Geraldine Knatz, Ph.D. "We continue to facilitate export opportunities through our nationally-recognized TradeConnect Program while focusing our longer-term strategies on retaining and growing our position as the nation's busiest container seaport."

The neighboring port of Long Beach is also positioning itself for more inbound calls. This is a good move, says Jonathan Gold, vice president for supply chain and customs policy at the National Retail Federation. "We're headed into the slow season for cargo shipments, but forecasts indicate that retailers will be stocking up this spring in anticipation of a moderate recovery as the year progresses," he says. "Cargo volume doesn't translate directly into sales volume, but when retailers import more it's because they expect to sell more."

To that end, Long Beach is readying itself to extend its terminal lease with mega-carrier, Orient Overseas Container Line (OOCL) that represents the largest deal of its kind for any U.S. seaport. Leasing partners comprise Hong Kong-based OOCL and its U.S. subsidiaries OOCL LLC., and Long Beach Container Terminal (LBCT). The port is investing $1.2 billion to develop the new 300-acre Middle Harbor Terminal, while OOCL

Lazaro Cardenas is a port worth watching

As if U.S. West Coast ports didn't have enough to worry about, a new competitor is surfacing south of the border to challenge them.

Canadian and U.S. East Coast ports have been taking business away from LA/Long Beach, Seattle/Tacoma, and Oakland for several years now. Analysts suggest that there's a number of reasons for this, but most center on efficiency and productivity.

Now the long-rumored development of the deepwater Mexican port of Lazaro Cardenas is becoming a realty as APM Terminals—a division of Denmark's A.P. Moller-Maersk Group—breaks ground for a new $900 million terminal.

Once completed in 2015, the port will provide shippers with a four-berth terminal linked to the Kansas City Southern Railroad.

Furthermore, as a foreign port, it's not subject to the U.S. harbor maintenance tax. Shippers may expect an aggressive response, however, as U.S. West Coast port leaders lobby Congress for a change in existing laws regarding cross-border movement of containers. The question remains: will this be too little too late?

– Patrick Burnson, Executive Editor

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and LBCT will invest approximately $500 million in the latest cargo-handling equipment.

The Port of Oakland reached a major funding milestone of nearly $350 million for harbor deepening and maintenance late last year, thereby enhancing its position as the third largest California seaport.

Jock O'Connell, Beacon Economics' International Trade Adviser, says he expects continued gains in California's export trade through the remainder of the year as the U.S. and world economies overcome the negative shocks that hit in early 2011.

"Oakland is the only major container port on the U.S. West Coast that exports more than it imports, with the volume of its export business at 55 percent and imports at 45 percent," he says. O'Connell adds that 2,000 container ships call Oakland each year, and many leave fully-loaded with California exports.

"Despite occasional dockside labor disruptions, Oakland has been, and continues to be, a premier U.S. export seaport for agricultural goods," adds O'Connell. "Its terminals are relatively new and uncrowded. The port is also close to California's Central Valley and the wine country. Furthermore, the port is the only U.S. West Coast gateway that has all top 20 ocean carriers providing regular service."

The two major U.S. Pacific Northwest ports—which not only compete with California but also their Canadian neighbors, Vancouver and Prince Rupert—have some reasons for remaining upbeat.

The Seattle Harbor once again handled over 2 million TEU's with 2.03 million containers moving through the harbor in 2011. The record was broken in 2010 with 2.1 million TEU's. But last year marks the third year that the harbor has exceeded 2 million TEUs.

"West Coast ports are also actively looking to compete by investing in their infrastructure and keeping rail rates competitive. In 2010, West Coast seaports served more than 190 million consumers, or 63 percent of the total U.S. population, and are expected to serve more than 220 million consumers in 2030."

—Kurt Nagle, CEO, American Association of Port Authorities

"We will continue to work with some competitive advantages," says Linda Styrk, Seattle's managing director. "We have the capacity and the facilities to handle 10,000 or more TEU container ships, we have excellent intermodal infrastructure and regional distribution facilities, and we continue to work with our customers collaboratively to keep the business here."

Several factors contribute to Seattle's increase in container volume. Exports continued to increase in 2011. The port also saw the addition of new shipping lines, services, and trade lanes while empty

From logisticsmgmt.com Logistics MANAGEMENT

Commentary: Port of Los Angeles gets it

As part of President Obama's National Export Initiative Agenda, which calls for a doubling of U.S. exports over a five-year period, the Port of Los Angeles continues to focus on assisting businesses throughout the region.

It does this by community outreach, teaching the basics of exporting, including costs, risks, finding overseas markets, trade financing and logistics. Export workshops occur throughout the year.

While the Port of Los Angeles experienced record-breaking exports in outbound container volumes, California's exporters turned in another strong performance in November, marking the 25th consecutive month in which the state's merchandise export trade increased on a year-over-year basis.

The value of goods shipped abroad by California businesses in November reached $14.07 billion, a nominal gain of 12.7 percent over the $12.49 billion reported in November 2010, according to an analysis by Beacon Economics of foreign trade data released late last week by the U.S. Commerce Department.

Overall, the California economy is showing strong signs of turning the economic corner. Beacon Economics' Founding Partner Christopher Thornberg, said that job growth, consumer spending, non-residential construction, and industrial vacancies have all showed signs of strong improvement in recent months.

"Much of the momentum behind California's economy can be traced back to the state's resurgent export sectors," Thornberg said. The Port of Los Angeles also deserves some credit.

– Patrick Burnson, Executive Editor

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- ☑ First international ocean shipping company to receive the Environmental System Certification, *ISO 14001*.
- ☑ First maritime company named *Carbon Management Industry Leader* by the Carbon Disclosure Project of Korea.
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container positioning remained strong. The port maintains four world-class container terminals, with 27 cranes, 11 container berths up to 50 feet deep, along with close proximity to two major national rail hubs and two major interstate highways within minutes of all terminals for efficient truck access.

The Port of Tacoma, which recently celebrated the completion of a $32 million extension of the Washington United Terminals (WUT) wharf on the Blair Waterway, also remains resilient. The construction project added 600 feet to the terminal's existing 2,000-foot berth to support two "super post-Panamax" container cranes the terminal added in January 2009.

The 273-foot-high cranes can serve a ship 24 containers wide, making them among the world's largest. Built by Shanghai-based ZPMC, the cranes joined four others at WUT with an 18-container-wide reach. "This wharf extension provides WUT with the additional terminal capacity we need for our two largest container cranes, and allows us

Port of Miami poised for growth

In an exclusive interview with *Logistics Management*, Kevin T. Lynskey, assistant director of the Port of Miami, offers shippers a current evaluation of this booming ocean cargo gateway.

Logistics Management: Port of Savannah, along with New York/New Jersey, are taking market share away from the U.S. West Coast ports. What role does Port of Miami have in this trend?

Kevin Lynskey: Well, the East Coast will certainly continue to take additional share from the West Coast, and Miami will be a beneficiary because of its location and water depth. Like Savannah and New York/New Jersey, Miami is also benefiting from importers' desires to service the large population and consumption markets on the East Coast via all-water East Coast routings from Asia.

LM: What impact do you project the Panama Canal expansion will have on Miami?

Lynskey: Miami will be the closest U.S. port of call to the Panama Canal, and will be the only port south of Norfolk to be at 50 feet, which is the water depth that the ocean carriers will use to evaluate which ports they route the larger and more economic vessels to.

We will also have on-dock rail service through Florida East Coast Railway (FEC). Given the margin pressures that importers are facing in today's economic environment, Port Miami and FEC will be in position to significantly reduce transportation expense, inventory investment, and carbon emissions. Importers from Asia will be able to move their goods cheaper and faster through Miami and FEC into the Southeast United States.

LM: How important is a trade agreement with Cuba for Miami? Do you see one developing in the future?

Lynskey: We make no prediction of how or when trade flows will begin with Cuba. However, we have 'gamed' the day when trade flows free and have made estimates of container movements in the near and long-term to and from Cuba. It will be a substantial trade for us, but not transformative in terms of volume for our port.

LM: Not transformative in terms of volume? Then what would be?

Lynskey: Certainly, there are several key infrastructure improvements that will attract future business. The first is the future completion of the deep dredge project that will move Miami to 50 feet of water depth—and subsequently allowing the ocean carriers to route their larger vessels to.

The economic advantages of being able to accommodate the larger vessels is significant, with estimates of a 30-percent to 50-percent container-slot fee savings being projected for the 8,000 twenty-foot equivalent (TEU) vessels versus the 4,800 TEU vessels of today. We project that our deep dredge project will be completed by the end of 2014, in conjunction with the completion of the Canal expansion.

LM: What about rail service?

Lynskey: Good question, and again, very important. In conjunction with the Florida East Coast Railway (FEC), we will be restoring on-dock rail access between the port and FEC's mainline track that runs up and down the east coast of Florida between Jacksonville and Miami.

For shippers looking to move their cargo beyond Jacksonville, the FEC has interline agreements with the other two East Coast Class 1 railroads—NS and CSX—to facilitate moves beyond Florida. This on-dock rail operation will help to expedite the freight from our port to the shippers' final destinations, and will also reduce the need to dray the goods from our port to FEC's intermodal facility.

LM: How soon will this be realized?

Lynskey: Our on-dock rail project is currently scheduled to be completed and ready for operations in the second half of 2012. Our third significant infrastructure project is the tunnel that is being constructed that will allow truck traffic from the port to bypass downtown Miami, in favor of unencumbered access to the highway system via the tunnel.

This will help facilitate the expeditious movement of truck traffic into and out of the port. Again, this will make it easier for the shippers to keep their supply chains continuously moving. We believe that the confluence of these three projects will make Miami and FEC the logical choice shippers and ocean carriers to route their freight into the Southeast and beyond.

LM: What is the fastest growing segment of your cargo operations?

Lynskey: We have had a steady mix of products over the last decade, with the major exception of construction related goods, which have obviously lost significant volume. We expect better performance in perishables for a number of reasons, and of course, the entire consumer related product growth from greater trade with China post-2014.

—By Patrick Burnson, Executive Editor

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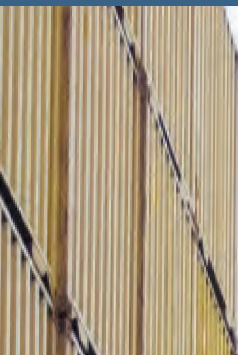

to handle two container ships at the same time at our facility," says Y.I. Song, head of Hyundai Merchant Marine America, Inc. "It also gives us greater capacity to handle additional business at this terminal and accommodate the industry's largest container vessels."

John Wolfe, CEO of Port of Tacoma, speaks for many on the West Coast when he says collaboration is key: "This project is a great example of how we work together with our shipping lines and terminal operators to make investments that create additional capacity for our future growth," he says. □

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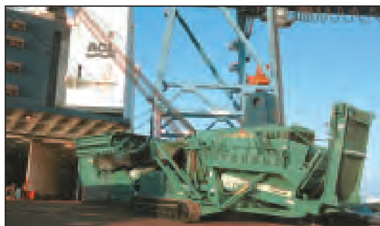

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U.S. exports approaching a record pace

The United States exported $177.8 billion in goods and services in November 2011, according to data released last month by the Bureau of Economic Analysis (BEA) of the U.S. Commerce Department.

Exports of goods and services over the last 12 months totaled $2.089 trillion, which is 32.64 percent above the level of exports in 2009. Over the last 12 months, exports have been growing at an annualized rate of 15.9 percent when compared to 2009, a pace greater than the 15 percent required to double exports by the end of 2014.

Over the past year, the countries with the largest annualized increase in U.S. goods purchases include Turkey (45.4 percent), Panama (40.6 percent), Honduras (37 percent), Argentina (33.4 percent), Hong Kong (32.9 percent), Peru (30.7 percent), Chile (29.2 percent), Brazil (29.1 percent), South Africa (28.7 percent), and Thailand (27.7 percent).

Furthering U.S. export growth, Export-Import Bank of the U.S. approved more than $4.26 billion in total authorizations in the first quarter of fiscal year 2012. This total includes an estimated $789 million in small business financing and $16.6 million in authorizations to renewable-energy projects. Top industry sectors included aircraft, manufacturing, agriculture, services, and information and communications service providers.

According to Fred P. Hochberg, Export-Import Bank chairman and president, "U.S. exports are an integral part to driving the economy towards recovery, and we must continue to engage our partners in government and the private sector to find new and innovative ways to finance exporting of U.S. goods and services."

—Patrick Burnson, Executive Editor

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SNL, logistics, and a wet Italian cruise liner

By John A. Gentle, DLP

HUMOR ASIDE, NBC'S SATURDAY NIGHT LIVE (SNL), logistics, and a submerged Italian cruise ship have a lot in common.

I recently watched a promo for SNL where the guest host was talking about the skit rehearsals and what a daunting task it is when things are changed, dropped, or added at the very last minute. The host said he did not know if he would be ready. To this, an SNL regular said: "The show doesn't go on because you're ready, it goes on because it's 11:30 p.m. on Saturday night." In other words: Ready or not, it's show time.

The same, unfortunately, held true for Captain Schettino and the crew of his ship Costa Concordia—and so too is the reality of logistics and supply chain management.

With the exception of transactional activities, extraordinary logistical events occur at random times and your team needs to be well trained in order to successfully mitigate the challenge.

The simple question is: Will you be ready? However, the better questions to ask are: Does your team consistently train, and if so do you only train on transactional activities like tendering freight? Or, do you train only after an audit finds shortcomings?

It's not that we were never exposed to the concept of training or rehearsing. Looking back on our lives, we were taught to practice everything from our first grade play to fire drills, and from academic exercises like multiplication tables and pre-SAT tests to group activities like musicals and sports.

So, what happened to all of those training and rehearsing skills? Well, we know it wasn't part of the culture on the Costa Concordia's command staff. Is rehearsing and training only for actors, athletes, students, singers, pilots, NASA, and the military? Sometimes, I think that logistics professionals have become intellectually arrogant and feel that they are above training and rehearsing. Hopefully your company's culture supports non-technical training and rehearsing and they don't fall victim to the infamous ROI.

Most companies mainly focus their proactive training on transactional skills, safety, information systems, and human resource compliance; while rehearsing seems to be isolated to fire drills—and even then, getting some to comply is a challenge.

The reactional training is often based on unfortunate events and audits. As a result of the shipwreck off of Giglio Island, for example, new training procedures for pre-departure rehearsals will likely be implemented. What a disastrous and expensive way to introduce a seemingly logical process change.

So, do you and your employees know what the processes and rules are, where they are housed, and how they are accessed? Do you ask your team if they're following the processes/protocols and accept a yes or no? If an audit tomorrow finds a variant, will you be surprised and say: "I thought we changed that."

A good example of how things evolve is singing. You think after a while that you know the song, but over time you gradually begin to sing your version of the song. You or your colleagues may have rationalized that the song sounds better without regard for the consequences of those changes.

With the exception of transactional activities, extraordinary logistical events occur at random times and your team needs to be well trained in order to successfully mitigate the challenge.

Your guiding principles must be embedded in your program and followed by everyone. Has your team slowly hijacked your programs, commitments, and processes? Teams that have chosen to micromanage your programs into something that they like just a little bit better are placing the integrity or reputation of your program with your carriers and customers at risk.

Have the courage to require your team to test and practice in spite of leadership concerns for ROI. Avoid the temptation of the adrenaline rush that comes from operating too close to the rocks.

It's show time. Are you ready? ☐

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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