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May 2014

2014 TECHNOLOGY ROUNDTABLE

The great convergence

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TOP 30 U.S. PORTS
Digging deep 54S


Skill is moving inventory from here to there.
Will is caring about your business enough to improve your bottom line.
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Will is doing it before they ask.
Skill is knowing how to fix a truck.
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LM management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

◆**UPS adds to Latin America healthcare portfolio.** Last month, UPS rolled out new multi-client healthcare dedicated facilities in Mexico City, Mexico; San Paulo, Brazil; and Santiago, Chile. Company officials said that these new facilities are designed to support the storage and distribution of pharmaceutical, biotech, and medical device products, adding that these new additions have access to roughly 70 percent of the healthcare and manufacturing market in Latin America. "UPS healthcare customers are experiencing rapid growth in the Latin America region, and UPS is expanding its existing distribution footprint to accommodate that growth," said John Menna, UPS vice president of global healthcare strategy. "UPS provides integrated regional transportation and logistics solutions that will now reach a greater portion of the region's growing healthcare consumption market."

◆**Samson calls it quits at NY/NJ.** David Samson resigned as chairman of the Port Authority of New York and New Jersey last month, marking a third resignation of a top ally of Gov. Chris Christie amid the fallout from the George Washington Bridge lane closure scandal. Samson had been under intense scrutiny for weeks, after investigations into the lane closures led the media, legislators, and federal prosecutors to examine the intersection of Samson's private business interests and his leadership of the bi-state authority. Samson maintained that he had done nothing improper.

◆**DiCentral acquires SmartTurn WMS from JDA.** DiCentral Inc., a provider of electronic data interchange software and services for supply chain, said it has acquired SmartTurn, an on-demand warehouse management system (WMS) from JDA. Financial terms of this deal were not disclosed, but DiCentral said that SmartTurn's customer base and its proprietary technology are included as well as key JDA employees that work on SmartTurn will become DiCentral employees. DiCentral officials said that this acquisition is a result of the company looking to improve customer experience and return on investment, with SmartTurn being brought to market as a value-add to its supply chain integration suite designed to help customers achieve end-to-end supply chain visibility.

◆**Cass Freight Index Report shows growth potential.** After a winter to forget, freight market conditions may be turning the corner headed into spring, according to the most recent edition of the *Cass Freight Index Report* from Cass Information Systems which measures trends in North American shipping activity based on paid-freight expenses of roughly 350 of America's largest shippers. For March, the most recent month for which data is available, Cass said that shipments and freight expenditures showed sequential and annual gains. The report states that solid manufacturing growth in March helped spur shipment growth, as did increasing truck traffic over the month. And while demand was strong, many of the report's respondents are still concerned about weather-related problems in certain parts of the country.

◆**Freight rails unlikely to meet PTC deadline.** A 2015 deadline for freight railroads to have Positive Train Control (PTC) technology installed on 40 percent of the nation's railroad tracks will go unmet, according to a report from the Association of American Railroads (AAR). The AAR report said that a year-long moratorium on installing 20,000 communication antennas imposed by the Federal Communications Commission (FCC), followed by a lengthy federal approval process mandated by the agency, has delayed the implementation of nationwide interoperable PTC. As a result of that delay, the AAR now maintains PTC will be installed on about 20 percent of the nation's freight rail network.

◆**STB holds rail service hearing.** Last month, the Department of Transportation's Surface Transportation Board (STB) officials said that the board has been "closely monitoring the rail industry's performance metric and is concerned about service problems across the nation's railroad network, particularly on the Canadian Pacific Railway Company (CP) and BNSF Railway Company (BNSF) company systems." Officials added that the STB's Office of Public Assistance, Governmental Affairs, and Compliance has been working with affected parties to better understand the problems shippers are facing and to help facilitate service solutions. The majority of the service issues stem from difficult winter weather conditions

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LM management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

that reduced train size and speed, and thus capacity, observed Tony Hatch, an independent railroad analyst. Hatch added that recent service metrics, including velocity, have seen carriers suffering, with the impact lasting into the second quarter and perhaps longer. As an example, Hatch noted that BNSF saw a 16 percent velocity decline in the first quarter.

◆**Merger nixed.** In a move that's already stirring controversy, the L.A. 2020 Commission has suggested that the ports of Los Angeles and Long Beach merge cargo operations. The Commission, comprising prominent business, labor, and civic leaders, maintains that market share will be threatened further if this move is not made soon. "That current drop in market share alone is the size of the fifth-biggest port in the country, accounts for more than 60,000 jobs, and is in excess of $100 million in revenue," commission officials said. "We should fight to bring those jobs and tax revenues back to Los Angeles." Outgoing Long Beach Mayor Bob Foster and Doug Drummond, president of the Long Beach Board of Harbor Commissioners, have publicly stated that the merger is a "bad idea."

◆**Merger fixed.** In a move that signals yet more consolidation in the ocean carrier industry, Hapag-Lloyd AG and Compañía Sud Americana de Vapores (CSAV) signed a binding contract to merge CSAV's entire container business with Hapag-Lloyd, subject to the necessary approvals. Following the integration, the new Hapag-Lloyd will rank among the four largest liner shipping companies in the world, with some 200 vessels with total transport capacity of around one million twenty-foot equivalent units (TEUs). The company's head office will remain in Hamburg. In addition, Hapag-Lloyd will have a strong regional office in Chile for its Latin America business. In return for contributing its container business, CSAV will become a new Hapag-Lloyd core shareholder besides HGV (City of Hamburg) and Kühne Maritime. CSAV will initially hold a 30 percent stake in the combined entity.

◆**JaxPort stable.** Fitch Ratings affirmed its "A" rating on the Jacksonville Port Authority (JaxPort) last month. The affirmation reflects continued stable performance anchored by growing container throughput and sizable contractually guaranteed revenues from existing long-term tenants that limits the port's exposure to operational risk, said Fitch. Fitch also noted that the port benefits from a strategic location with improving intermodal connectivity and maintains its niche importance in the international automobile trade. Nevertheless, JaxPort operates in a highly competitive Southeast Atlantic region for cargo with moderate trade exposure with Latin America and the Caribbean markets, added Fitch.

◆**Sourcing costs to be cut.** According to new research released today by AlixPartners, the global business advisory firm, 66 percent of business executives from a wide range of industries surveyed globally say that they are looking to remove close to 10 percent from selling, general, and administrative (SG&A) costs in the next 12 months to 24 months, while 34 percent are targeting cuts of 11 percent to 20 percent in that time frame. Survey respondents say that they will mainly be focusing on organizational design as well as supplier sourcing and indirect expenses. However, the same respondent group also expects actual achieved savings to be lower compared to previous years, as they say that in the past 12 months to 24 months they'd cut SG&A by 14 percent on average.

◆**Behind the Zebra-Motorola acquisition.** The acquisition of Motorola Solutions ($2.5 billion in revenue/4,500 employees) by Zebra Technologies ($1 billion in revenue/2,000 employees) is a friendly deal all the way around. The deal was the result of a competitive process put in motion by Motorola Solutions last year. Credit a tough economy and favorable lending rates for making it possible. "We were pleased we were able to walk away with these assets," says Phil Gerskovich, Zebra's senior vice president of new growth platforms."In different economic times, we wouldn't have been able to do this deal, but with low interest rates, it made sense." Still, it is anything but an acquisition of equals, and Zebra will have its hands full integrating a company that is more than twice its size.

◆***Logistics Management (LM)* tweeting strong.** *LM's* Twitter feed, @LogisticsMgmt continues to gain traction, as it is now up to nearly 18,500 followers—up 40 percent in the last year. Come get in on the fun and follow *LM*, too, so you can keep up with our daily news, print features, and webcast information. ☐

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SPECIAL REPORT: TOP 30 U.S. PORTS

Digging deep

With the Panama Canal expansion planned to meet its deadline in late 2015, shippers are busy determining which top gateways will best serve their future needs. Meanwhile, even more strategic complexity has been introduced with further consolidation of ocean carrier services. Are niche ports ratcheting up their game to catch residual volume? Page 54S

WEBCAST
2014 Technology Roundtable

The great convergence

The supply chain technology market is evolving toward platforms and equipment that optimize end-to-end processes and help managers better integrate people into a more streamlined workflow. In our *2014 Technology Roundtable Webcast*, four top technology analysts offer their unique insight into how the convergence of automation, data, and labor is moving us toward this utopian vision.

Moderator
Michael Levans, Group Editorial Director

Speakers:
Dwight Klappich, Gartner
Belinda Griffin, Capgemini
Norm Saenz, St. Onge Company
Steve Banker, ARC Advisory Group

May 29 @ 2:00 pm ET
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2014 Warehouse/DC Equipment & Technology Survey
WEBCAST

Maxed Out: Are we still doing *more* with *less*?

Have we stepped up investment in equipment and technology inside the nation's warehouse and distribution center (DC) operations?

Our panel takes a deep look at the findings of our annual *Warehouse/DC Equipment and Technology Survey* and finds a growing interest in automation and software as workforce issues now factor heavily into every investment decision.

Join Group Editorial Director Michael Levans and Editor-at-Large Josh Bond as they conduct a conversation to put deeper context around the findings of this important annual study. Attendees will learn:

- Current activity levels inside U.S. warehouse and DC operations;
- Spending plans for equipment;
- Current and future investment levels for software and automation.

Go to: logisticsmgmt.com/2014WDCequipment

LM VIEWPOINT

The great convergence

THE TERMS "CONVERGENCE" and "collaboration" have been popping up recently in discussions about improving logistics and supply chain management processes and the collection and synchronization of the data that can foster those improvements. In fact, the two terms form the foundation of *LM's 2014 Technology Roundtable*, our annual feature and subsequent webcast (May 29).

When we discuss collaboration in terms of end-to-end logistics and supply chain processes, we refer to basics such as real-time contact with carriers, sharing long-term plans with our 3PLs, clearly communicating data through our own organizations, and improving freight visibility and inventory management through collaborative planning with our suppliers—but that just scratches the surface.

Putting these practices in place can reduce transportation rates and improve service and communication for all supply chain stakeholders. However, our 2014 panel says that the majority of logistics and supply chain operations are simply not built to truly collaborate and achieve these benefits.

In fact, a recent Gartner survey found that the inability to synchronize end-to-end business processes was named as the second biggest obstacle to reaching supply chain goals. As Gartner's Dwight Klappich shares in this year's roundtable (page 24), to get there, supply chain organizations need to do a better job of orchestrating and synchronizing the data and activities across warehousing, transportation, and manufacturing functions—a concept he calls "supply chain execution convergence."

"Look at the way most supply chain organizations were traditionally organized: They were broken down into functional silos like planning, sourcing, manufacturing, warehousing, and transportation—and at best they were loosely connected," says Klappich. "Companies pass data back and forth between applications, but coordinating end-to-end processes across application silos remains elusive."

To remedy that, Klappich sees the market evolving toward platforms that optimize end-to-end processes, and this will happen over time in phases that include rolling up data into a common analytical system, achieving tighter integration between supply chain applications, and achieving bi-directional communication between systems that will synchronize activities.

Capgemini's Belinda Griffin takes that concept one step further. She uses the term "supply chain collaboration" for the next step in the technological evolution.

"Supply chain collaboration is a broader concept that includes not only supply chain execution, but also encompasses forward looking planning and forecasting activities," says Griffin. For example, supply chain execution convergence brings shippers, 3PLs, and other partners together at the time of shipment to promote shipping efficiencies. "Supply chain collaboration is about going beyond this and allowing providers to see what capacity is going to be demanded of them during a key future shipping window so that they can develop mitigation strategies for inadequate capacity," she says.

Chances are high that you have a full range of supply chain software and enabling hardware at your fingertips, yet you're still facing significant execution issues. So, while the concepts our analysts share this month may seem more theoretical than practical, its time to give some thought to how you define collaboration and convergence in your operations.

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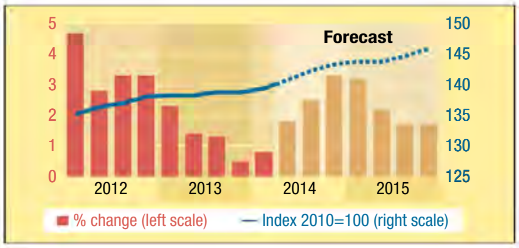
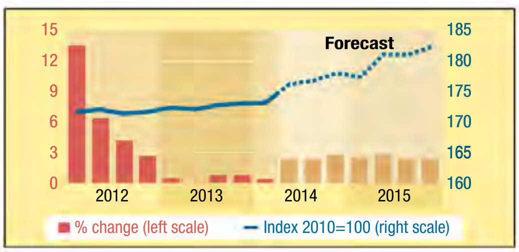


% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.0	0.0	0.0
TL	1.5	1.7	1.0
LTL	0.2	1.0	2.0
Tanker & other specialized freight	0.4	0.5	0.9

TRUCKING

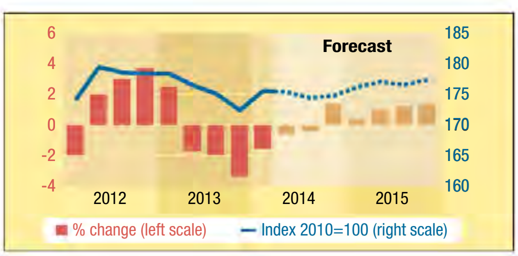
U.S. trucking industry prices completed the first quarter of this year only 0.8% higher than a year ago. Transaction prices for LTL trucking services led the way with a 2.4% increase while truckload tags posted a meager 0.3% uptick. Reductions in the underlying costs that truckers face have made the low inflation story possible. In early 2014, labor costs for truckers escalated at a weak 1% pace and fuel costs declined 1.4%. As a result, we estimate the trucking industry's pre-tax gross operating surplus stood at $20.36 (per $100 of sales) in February 2014. That's $0.50 higher than a year ago. The forecast for trucking prices remains: up 2.1% in 2014 and up 2.2% in 2015.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.2	0.2	0.5
Air freight on chartered flights	-3.8	4.4	6.0
Domestic air courier	-0.2	4.5	3.3
International air courier	-0.2	4.9	3.8

AIR

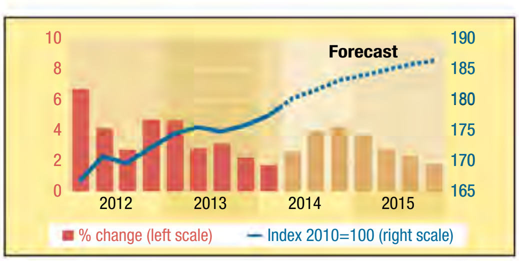
Average transaction prices for flying freight on scheduled flights of U.S. airliners saw a one-month 0.2% hike in March. All told, in the first quarter of 2014, these prices increased merely 0.4% from year-ago levels, which is almost the same slumberous rate of inflation reported a year ago. Prices for flying cargo on nonscheduled flights, meanwhile, flew up 8.1% in the first quarter of 2014. That quarterly price jump was due solely to January's 15.8% price hike as chartered air cargo prices declined 2.9% in February and fell again 3.8% in March. After rising 0.5% in 2013, prices for flying cargo on scheduled U.S.-owned flights remain on target to increase 2% in 2014 and 2.5% in 2015.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep sea freight	0.0	5.1	4.9
Coastal & intercoastal freight	-0.3	4.0	-6.2
Great Lakes/St. Lawrence Seaway	na	na	na
Inland water freight	0.6	-0.7	-3.6

WATER

In the first quarter of 2014, vessels plying inland waterways report their average transaction prices declined 5.9% from year-ago levels. Following respective price cuts of 6.5% and 4.6% in the fourth and third quarters of 2013, this price trend so far shows no signs of floating back up. Average prices charged by U.S.-owned ships in the deep sea category, however, increased 2.5% in the first quarter of 2014. That followed price declines in each of the previous three quarters of 2013. Adding together these plus Coastal and Great Lakes, we see a shift ahead for the water transportation market with a 0.3% average annual price cut in 2014 and a 1% hike in 2015.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	0.2	1.5	1.9
Intermodal	0.8	2.1	1.9
Carload	0.1	1.5	1.9

RAIL

The latest monthly reports show prices from intermodal rail operators up 0.8% and up 0.1% from carload rail. Looking at price trends in the first three months of 2014 compared to the same period of 2013, we see intermodal prices have increased 2% and carload tags have escalated 1.7%. Meanwhile, when examining underlying cost drivers in February 2014, we see worker wages spiked up 4.1% while fuel costs fell 5.9% from same-month-year-ago. At the same time, rail industry prices increased 1.8%. Our price escalation forecast for the rail transportation industry remains unchanged: up 3.1% in 2014 and up 2.6% in 2015.

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NEWS analysis

Also:

- Tight capacity outlook will likely remain intact for a while, say industry stakeholders, Page 14
- Senate EPW Committee is focused on long-term transportation authorization, Page 15

Some LTL carriers shun annual GRIs in favor of "customer-centric" approach

According to trucking analysts, carrier general rate increases don't appear to carry same weight as in years past.

By John D. Schulz, Contributing Editor

FRAMINGHAM, Mass.—General rate increases (GRIs) in the less-than-truckload (LTL) sector of the trucking industry are an annual event, but is anyone paying attention anymore? And more importantly, is anyone actually paying these announced GRIs, this year ranging anywhere from 3.9 to 5.4 percent range?

Increasingly, the answer appears to be "no."

GRIs used to be announced in the dead of winter, designed to take effect around Jan. 1, the way parcel giants UPS and FedEx still do it. Then, a few years ago, the LTL carriers shifted to earlier announcements designed to take effect in late summer during the peak shipping season when presumably shippers are more worried about capacity.

Today they've been moved up to take effect in spring, at the very start of the peak season. This year, FedEx Freight, UPS Freight, YRC Freight, ABF, Con-way, and Saia have all announced GRIs. Significantly, market leader Old Dominion Freight Line has not, as of press time, made their announcement, leaving the others with no choice but to significantly discount away some of those announced rate hikes.

It's important to keep in mind that GRIs don't have much effect on contract freight rates. Contract freight is estimated to comprise as much as 80 percent of all LTL traffic, according to estimates by trucking analyst firm SJ Consulting.

General rate increases are a vestige of government regulation of trucking rates, which ceased in 1980 when the industry was economically deregulated. While they might still have some significance in providing a ceiling from which all contract freight is discounted, GRIs long ago ceased to have significant impact.

In fact, some leading LTL carriers have significantly moved away from annual GRIs in favor of a more tailored approach to pricing, taking into consideration a more precise analysis of

exactly what that customer's freight mix means to a carrier's efficient operation—and therefore what rate that shipper pays.

Pittsburgh-based Pitt Ohio, the nation's 17th largest LTL carrier with $362 million in revenue last year, is just such a carrier. It began eschewing GRIs about 10 years ago in favor of what it calls a more "customer-centric" approach to pricing. And technology has played a huge role in that.

"Access to actionable information has changed the price and service discussion for most carriers and shippers," said Geoff Muessig, Pitt Ohio's executive vice president.

In recent years, carriers have developed sophisticated lane-based costing models and shippers have gained access to low-cost transportation management systems, Muessig adds. Today, carriers and shippers can easily exchange information and discuss which lanes allow a carrier to meet the market price, provide good service, and generate an adequate margin.

"General rate increases were needed back in the day when carriers and shippers didn't have easy access to this type of information," Muessig says. "One-size-fits-all, across the board rate increases remain easy for a carrier to implement. However, over time, a carrier will find that its pricing programs have become distorted to the point where some customers are charged too much and others are not charged enough."

In fact, the effects of GRIs can be somewhat misleading, noted Stifel Nicolaus analyst David Ross.

Ross says that the tradition of GRIs is driven by the "legacy union operating environment" where the leading cost input, labor, rose contractually every year. Even though the LTL industry is now predominantly non-union, and union workers at YRC and ABF have actually taken wage concessions recently, this practice continues.

"The increases are not, however, indicative of the overall pricing environment, in our view," Ross says.

If there is overcapacity in the LTL industry, most, if not all, of the announced increase end up getting discounted away, Ross says. When supply and demand are tight, rates increase more, no matter what the GRIs indicate. Ross adds that LTL pricing is pretty solid currently, with most carriers getting net pricing increases north of 3 percent this year.

Ironically, Ross adds that it's small shippers—the most profitable accounts for the LTL carrier—who are actually most vulnerable to effects of GRIs, compared with the large national accounts, which enjoy negotiating leverage due to their volumes. ☐

TRUCKING

Tight capacity outlook will likely remain intact for a while, say industry stakeholders

FRAMINGHAM, Mass.—Even with the most difficult winter weather conditions in years now in the rear-view mirror, there's one issue in the trucking sector that remains unchanged: tight capacity.

Aside from the weather, capacity is tight for a few other reasons, including the ongoing driver shortage, which doesn't look to be improving anytime soon, as well as the impact of federal regulations, most notably CSA and the tweaks to the hours of service (HOS) rules that took effect in July 2013.

Richard Mikes, a partner at Transport Capital Partners, explained that carriers are of the mindset that current conditions "look really good," but with the caveat that drivers and driver availability are the current controllers of capacity in the trucking sector.

And with the increased pressure coming from government regulations, carriers really have no choice but to increase driver compensation, which will serve as a major catalyst for rate increases, added Mikes.

"With the new HOS rules having been intact for a relatively short time, shippers have been receiving calls from carriers that previously were able to make on-time deliveries, but are now either getting delayed or being forced to turn down the load altogether," said Mikes.

Data from freight transportation forecasting consultancy FTR echoed similar sentiments. FTR said last month that shippers should work to acquire sufficient capacity through the spring seasonal shipping peak, as 2014 could be a "very volatile year." Jonathan Starks, FTR's director of transportation analysis, said that while the drag of tight capacity was highlighted during the winter, shippers now need to closely monitor signs of an economic uptick.

"If the economy stays stuck in slow-growth mode and the weather finally behaves, we can expect the extremely tight capacity to normalize by mid-summer," Starks said. "If, however, we can finally get some additional economic activity, especially in the vital manufacturing sector, the tight truck environment will persist and could significantly worsen. For shippers, now is the time for careful planning for the fall shipping season."

In the meantime, shippers are being forced to adapt and change on the fly as a result of current capacity availability. "We're seeing a tightening this year in terms of capacity much earlier than normal," explained Jeff Brady, director of transportation and logistics at Harry & David, a multi-channel specialty retailer. "As a highly seasonal shipper, it's usually available this time of year, but it's very tight this year, even ahead of produce season on the West Coast."

Brady said he believes that the current environment is the result of a conflux of HOS, a shrinking carrier base, and a true contraction in long-haul trucking. "I don't necessarily buy the so-called economic recovery aspect; but regardless, we've got serious challenges in our industry that need to be addressed," he said.

According to Doug Waggoner, CEO of Echo Global Logistics, HOS took a little capacity out of the system for a lot of carriers, adding that was contingent on how carriers ran their respective networks.

"The economic recovery looks to be above and beyond what we've seen for the last number of quarters, and industry capacity was mostly in balance but close to the edge of it," said Waggoner. "Things were also made more difficult by the inability of carriers to add capacity due to the driver shortage. These factors together, coupled with a tough first quarter, are, in effect, an anomaly as January and February are typically two of the slowest months of the year. In short, we're going to see rates go up and capacity is going to stay tight."

—Jeff Berman, Group News Editor

INFRASTRUCTURE

Senate EPW Committee is focused on long-term transportation authorization

WASHINGTON, D.C.—As time rapidly runs out before the current federal transportation authorization, MAP-21, expires at the end of September, it remains to be seen what happens next.

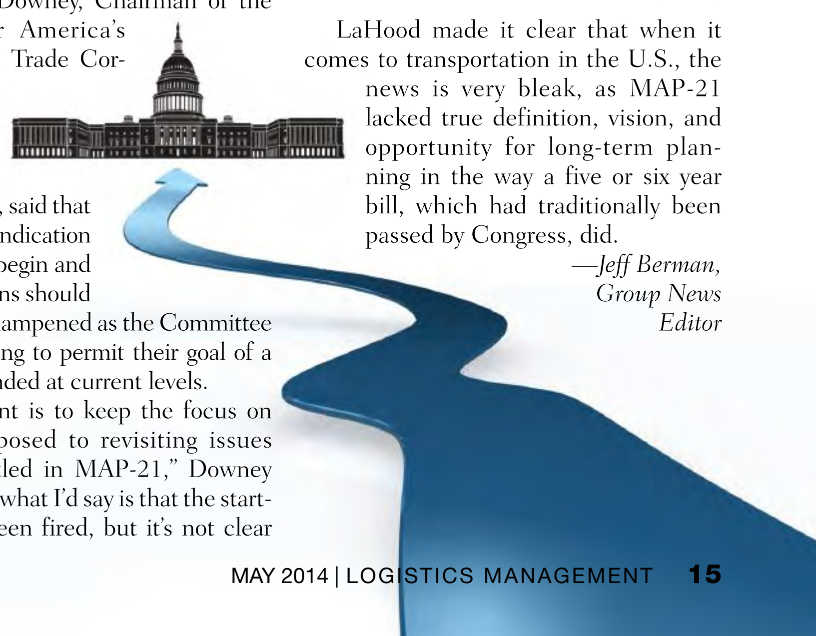
There could be a long-term bill coming, but given the fact that when MAP-21's predecessor, the six year SAFETEA-LU expired, it was not immediately replaced by MAP-21, which many industry stakeholders view mainly as a stop-gap bill due to its two year length. Instead, what followed SAFETEA-LU was a series of 26 continuing resolutions that kept funding at the same levels with no significant improvements in terms of transportation authorization.

Despite myriad challenges, there appears to be at least a semblance of hope based on some recent action from the Senate Environment and Public Works (EPW) Committee, whose leadership held a press event last month to proclaim that they have reached "an agreement in principle on a transportation bill."

EPW leadership released a short list of principles that would serve as cogs or foundations for a future authorization, including: passing a long-term bill, as opposed to a short-term patch; maintaining the formulas for existing core programs; promoting fiscal responsibility by keeping current levels of funding, plus inflation; and requiring better information sharing regarding federal grants.

Senator Barbara Boxer (D-CA), part of the EPW leadership, was firm in her assessment of where things are in terms of the federal transportation landscape and where they need to be. "The reason [we are] standing here is to send a strong signal to this country that we, as leaders of this Committee, have worked across party lines to act before the Highway Trust Fund cannot pay its bills," said Boxer. "At a time when 70,000 of our nation's bridges are structurally deficient and less than 50 percent of our roads are in good condition, we must act, and that is what we intend to do."

Mortimer Downey, Chairman of the Coalition for America's Gateways and Trade Corridors and Former U.S. Deputy Secretary of Transportation, said that this is just the indication that work will begin and that expectations should be somewhat dampened as the Committee looks for funding to permit their goal of a six-year bill funded at current levels.



"Their intent is to keep the focus on money as opposed to revisiting issues that were settled in MAP-21," Downey explained. "So what I'd say is that the starting gun has been fired, but it's not clear how many laps there will be to the race."

The White House also has a long-term transportation vision with a freight policy component that looks very promising, and reports indicate that the House Transportation and Infrastructure Committee will be issuing one, too.

Even though there's some promising political momentum when it comes to the prospects of a new bill, former DOT Secretary Ray LaHood said that the prospects of a new transportation authorization passing in 2014 are minimal.

"I don't see that happening," LaHood said on a call hosted by Stifel Nicolaus last month. "No bills have been introduced by the committee of jurisdiction in either house, and even though there have been some hearings and some discussion, there were 26 extensions of the last federal transportation bill (SAFETEA-LU) before MAP-21 was passed. In an election year, and given that it was so hard to pass the two year MAP-21 bill, it is highly unlikely that there will be a transportation bill passed by the end of September."

"The reason [we are] standing here is to send a strong signal to this country that we, as leaders of this Committee, have worked across party lines to act before the Highway Trust Fund cannot pay its bills."

—Barbara Boxer (D-CA)

LaHood made it clear that when it comes to transportation in the U.S., the news is very bleak, as MAP-21 lacked true definition, vision, and opportunity for long-term planning in the way a five or six year bill, which had traditionally been passed by Congress, did.

—Jeff Berman, Group News Editor

Newsroom Notes
with Jeff Berman

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

Lack of progress is *status quo* when it comes to raising federal fuel tax

In the time I've covered the freight transportation, logistics, and supply chain sectors, I've seen clear signs of progress in multiple areas—whether it be the evolution of end-to-end supply chain management to support e-commerce or the potential for natural gas to serve as a primary fuel for our nation's trucking fleets.

However, an area where progress clearly has not been made revolves around the failings of our elected leaders in Washington to come up with the moxie to get the Highway Trust Fund (HTF) the money it desperately needs. Instead, they've been employing the now unacceptable Congressional practice of providing bailouts from the U.S. general treasury to keep the HTF financially afloat—and just barely.

Fact is, having sufficient capital in the HTF is critical, as its revenues are allocated for federal highway, transit, and highway safety programs. But as we also know, the main funding source for the HTF, the federal fuel tax, has not increased from its current levels of 23.4 cents for diesel and 18.4 cents per gallon of gasoline since 1993. What's more, diesel taxes represent about 90 percent of Highway Trust Fund (HTF) net revenues.

So where does that leave us when it comes to the current state of the HTF? In short, it is not a pretty picture based on data from the U.S. Department of Transportation (DOT). According to the DOT's weekly online *Highway Trust Fund Tracker*, the HTF could fall below $4 billion by late July. While $4 billion seems like a massive sum, it's the minimum amount DOT "prefers to keep…in order to properly manage day-to-day financial transactions," according to the American Association of State Highway and Transportation Officials (AASHTO).

AASHTO noted in a recent member bulletin that, based on DOT data, the HTF kicked off fiscal year 2014 on October 1, 2013, with a balance of $1.6 billion and then soon after received a $9.7 billion transfer from the U.S. General Fund. Sound familiar?

But even with this bridge loan of sorts, DOT said that "the surface transportation program continues to outlay at a greater pace than receipts are coming in." In other words, it's functioning in a model of insolvency.

Need more proof? Consider this: The House Transportation and Infrastructure (T&I) Committee recently said that by the end of 2014, a total of $54 billion will have been transferred from the General Fund into the HTF in order to remain solvent, including an $18.8 billion transfer signed off on by Congress as part of the federal transportation bill, MAP-21, which is set to expire this September.

On the heels of this, the Congressional Budget Office said last year that the HTF would have a $15 billion shortfall in 2015. You'd think that these numbers would grab the attention of at least a few lawmakers in Congress, but given the political dysfunction at work these days, think again.

And here's a real morale booster from former DOT Secretary Ray LaHood from the *National Journal* on March 24: "When September 30 comes and the highway trust fund is broke…they'll pass an extension of MAP-21. They'll take some money out of the general fund. They'll limp through the election, and then I don't know what will happen after that."

So much for long-term vision on the transportation front. During his time as DOT Secretary, LaHood made it clear numerous times that raising the fuel tax was not even close to likely due to the slow pace of the economic recovery and relatively high unemployment rate—which has come down over the last year.

And with better economic news, it's still not likely that those in Congress are primed to raise taxes at the gas pumps either. A February report in *The Hill* quoted Rep. Bill Shuster, chairman of the T&I Committee, as saying that he's ruled out a fuel tax increase, explaining that "economically it's not the time," adding that he was unsure that there was enough support from lawmakers or the public to move forward with such a proposal."

But, the last part seems odd considering that an influential organization like the ATA soundly endorses raising the fuel tax—provided that the proceeds are allocated for reinvestment in highway projects.

Until something actually happens, the HTF deficit grows and we will all wonder why nothing gets done in terms of raising the federal fuel tax. Not raising it has been the *status quo* for more than 20 years, so why would anything change now? ☐

Until something actually happens, the HTF deficit grows and we will all wonder why nothing gets done in terms of raising the federal fuel tax. Not raising it has been the *status quo* for more than 20 years, so why would anything change now?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13 pain points in private fleet management

PRIVATE FLEET OPERATIONS ARE FACED with more challenges than ever as the three major external cost drivers—hours of service, equipment modernization, and fuel cost—are clamoring for attention. To help fleet managers navigate these hurdles, I focused this column on costs that management can set out to control through better internal processes and training.

To set the groundwork, I sat down with my good friend Tom McKenna, CEO of consulting firm Navesink Logistics and a go-to guy in fleet management for over 30 years, to talk about what private fleet owners have on their list beyond these three perennial challenge areas.

"Everyone has relatively the same driver availability, equipment, and fuel markets," says McKenna. "Given this reality, management needs to create their opportunity in 13 controllable operational areas." He adds that private fleet managers often fail in one or more of these 13 areas, and these failures have a direct impact on driver, equipment, and fuel costs beyond what the markets may bring.

As a former private fleet manager myself, each of these "pain points" resonated with me. See what you think:

1. *Not knowing whether it makes sense to backhaul product on a "freight collect" basis or to handle freight for third parties.* This a strategic question that takes some modeling and expertise that some fleet operators just don't have in-house. Get some help if you need it, but don't overlook this potential revenue stream.

2. *Poor fleet utilization.* Trucks and drivers make money moving, so apply lean principles to all activities from depot to loading to last stop.

3. *Not optimizing delivery schedules, routing, and payload.* Software is available in the cloud and through third parties at low costs to improve even the smallest fleets' efficiencies.

4. *Not using the best maintenance option.* It's hard to justify in-house maintenance with less than 25 units. Evaluate in-house vs. contract for your type of operation.

5. *Ineffective negotiation with original equipment manufacturers, dealers, and component manufacturers.* Find leverage through joint buying with other, similar businesses/divisions and be an active shopper. The easy solution, such as the local dealer, is not always the best one.

6. *Using equipment that does not have the best specifications.* Similar to No. 5, the least expensive equipment may come back to you in higher fuel and maintenance costs.

7. *Not using warranty programs.* Warranty coverage can often be overlooked when repaired in remote areas or by uninformed, in-house maintenance teams.

8. *Arbitrary equipment replacement policies.* For some fleet owners, the time to get new equipment is when the CFO says there are funds available—not when a formal lifecycle plan says so. Management needs to lay out the replacement plan factoring in utilization, resale market, and availability of capital.

9. *Deficient management of labor costs.* Paying people fairly is both a science and an art. An example of "bad art" is in pay methods that provide no encouragement for productivity. If you're going to spend more, make sure you're getting more.

10. *Driver turnover.* Private fleets enjoy a lower driver turnover rate than commercial carriers. Fostering a culture that is supportive of the important customer-facing role that drivers serve will help reduce this cost.

11. *Improperly managing workers compensation.* Together with the points in No. 10, a cause of dissatisfaction is often non-competitive wages and benefits. Management often finds that they need to create a unique class of workers in the company as "drivers" to have the flexibility to align compensation to the unique requirements of the function.

12. *Excessive tractor power.* This problem is often tied to No. 5 and No. 6, but can be a result of not having a strategy for third parties or backhauls. We have seen companies buy heavy equipment for potential backhauls or third party work only to find it to be too expensive for the light duty they need for their own company. The reverse happens as well, where light-duty fleet equipment is found to disqualify the fleet from third party loads.

13. *Disjointed safety and compliance practices.* Part of having a positive sustainable culture is to insist on compliance. Those of us who have had to clean up operations after low-compliance managers know the pain and expense of poor safety practices.

As every fleet manager knows, there's more to worry about than the efficient use of drivers, equipment, and fuel. As Tom McKenna indicates in this list, the many operational decisions we make everyday affect our major cost areas, and it's in these decisions that make or break careers in fleet management. ☐

Pearson on Excellence

Mark Pearson is the managing director of Accenture's Supply Chain Management practice. He has worked in supply chain for more than 20 years and has extensive international experience, particularly in Europe, Asia, and Russia. Based in Munich, Mark can be reached at mark.h.pearson@accenture.com

Lighting a sustainable supply chain fire under suppliers

A GROWING NUMBER OF manufacturing companies are warming up to sustainability—taking aggressive steps to soften and shrink their environmental footprints. However, buy-in from those companies' suppliers has been less encouraging.

These insights come from research coordinated by the Carbon Disclosure Project (CDP), a UK-based organization that works with companies to document greenhouse gas emissions. According to CDP, 34 percent of its member companies have established absolute and intensity-based emission reduction targets. However, only 5 percent of the suppliers that serve CDP member companies have enacted such targets. Nearly 40 percent of suppliers working with CDP companies have no sustainability programs whatsoever.

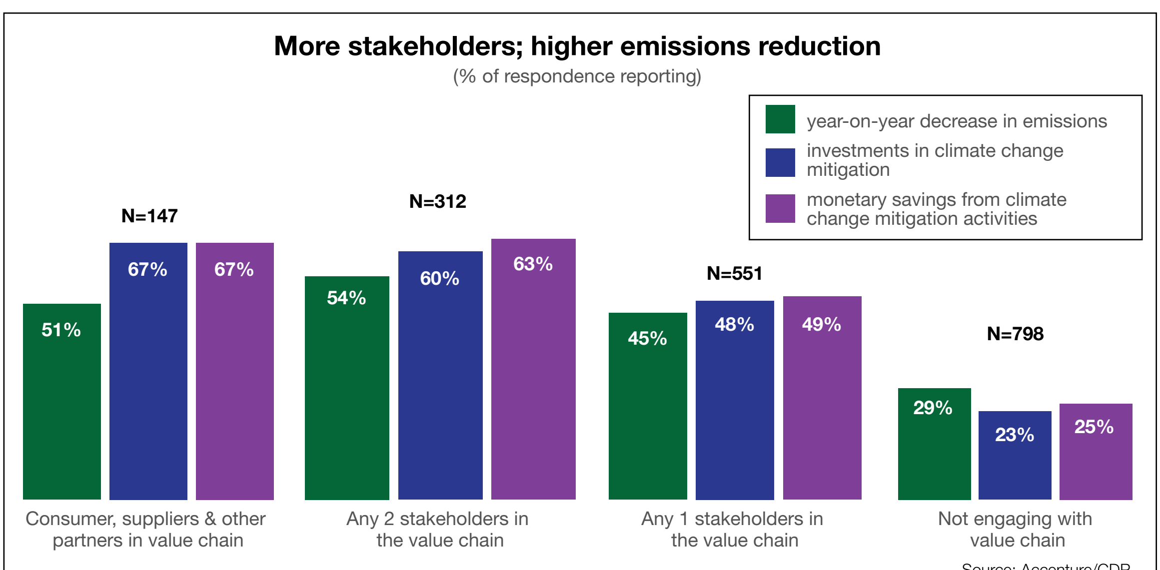
What can companies do to stimulate suppliers' commitment to ecologically responsible practices? And why is it in their best interests to do so? In the aforementioned report, CDP offers some ideas.

The most important incentive related insight, elegant in its simplicity, may be that "suppliers listen to their customers." According to CDP, 55 percent of suppliers that received more than three requests to participate in a supply chain sustainability program made emissions reductions. Among suppliers receiving just one request, the acquiescence rate was 26 percent. Financial benefits tracked closely to this frequency-of-request pattern: The more responses, the more environmental and economic benefits.

Suppliers may also respond to preferential treatment. For example, a buyer might incentivize sustainability performance by favoring a supplier that delivers on a particular sustainability metric. CDP notes the good example set by Vodafone Group Plc, which allocates shares of business to approved suppliers based on a sustainability scorecard the latter must fill out.

Companies can also engage suppliers by helping align risk management programs. Currently, 94 percent of CDP member companies integrate climate issues into company-wide risk management processes, compared with only 51 percent of suppliers. Clearly, it's in everyone's best interests to get a solid handle on risks that could lead to business interruption.

Another angle of persuasion is finding common ground. As part of its research, CDP identified a disconnect between the types of collaboration deemed



According to CDP, suppliers that engage with more stakeholders in their value chain enjoy higher emission reduction performance.

most effective by suppliers and the types of collaboration pursued by CDP member companies. Suppliers tend to focus on process and product design changes to drive emission reductions. However, the most favored investments made by CDP member companies are behavioral change initiatives and transportation and fleet-management investments.

Naturally it pays to accentuate the benefits that sustainability related collaborations can generate. According to CDP, companies that engage with multiple suppliers greatly increase their chances of benefiting financially from an emissions reduction program. Consider Cisco, which reduced greenhouse emissions by 41 percent compared to a 2007 baseline. One of the effort's cornerstones was collaborating with supply chain partners and involving industry consortia to develop common reporting and auditing tools. Here are some other success stories:

- Coca-Cola works with its bottlers to identify financially beneficial emission-reduction initiatives. From 2004 to 2011, Coca-Cola achieved close to $900 million in savings, predominantly from investments in energy efficiency.
- Working closely with contract footwear manufacturers, Nike's Manufacturing Energy & Carbon Program achieved a 6 percent absolute reduction in CO2e (equivalent carbon dioxide) in four years, despite a 20 percent increase in production.
- PepsiCo's Tropicana brand worked with farmers to develop carbon neutral fertilizers using orange rinds that are a byproduct of orange juice processing.
- Wal-Mart has been working with MeadWestvaco (MWV) to develop a more environmentally efficient package for the former's retail pharmaceutical adherence business. The new package is up to 80 percent more greenhouse-gas efficient to develop and reduces transportation costs and emissions. The result for MWV's key retail customers will be greenhouse gas emission savings of more than 12,000 metric tons annually.

According to one of Wal-Mart's suppliers, "Wal-Mart has driven our efforts to become sustainable and has made us aware of many areas where we can make a difference. Wal-Mart's interest in reducing their own carbon footprint pushed our company to consider all initiatives in order to be a more responsible supplier."

In one sense, this supplier is simply acknowledging what all companies should know: Sustainability is good business, and the more a company collaborates with its suppliers and business partners, the more "good business" gets done. □

Andreoli on **OIL+FUEL**

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Ocean carrier fuel costs are about to jump

COST CONSCIOUS SHIPPERS UNDERSTAND that fuel comprises between 40 percent and 60 percent of ocean carriers' operating costs, and bunker surcharges are a similarly important line item on a shipper's own income statement. In order to control rapidly rising fuel costs, ocean carriers have invested in significantly larger vessels and now operate them at a fraction of the speeds considered "normal" a decade ago when oil prices were just $30 per barrel.

Despite significant efficiency gains, carriers will see their fuel expenditures jump in the early months of 2015 as a result of tightening sulfur emissions regulations. And as is the case today, rising fuel costs will be passed on to shippers.

The International Maritime Organization (IMO) regulates ship exhaust through Annex VI of The International Convention for the Prevention of Pollution from Ships (MARPOL Annex VI). Sulfur and nitrogen oxide emissions are regulated by capping the sulfur content of marine fuels that are allowed to be burned in the open ocean and in environmentally sensitive Emissions Control Areas (ECA) in which emissions limits are especially strict.

The North American ECA extends approximately 200 miles from the shoreline, and for our purposes here, the European ECA includes all waters east of the entrance to the English Channel. Over time, the permissible sulfur content is progressively reduced in ECA and in the open ocean as well. The next round of reductions affecting all ECA will come into force in January 2015 when carriers will be required to burn fuel with a sulfur content no higher than 1,000 parts per million (0.1 percent).

The current limit is 1 percent, and in order to meet the current requirement, carriers burn low sulfur intermediate or heavy fuel oil (IFO/HFO). These bunkers are created by blending higher sulfur IFO or HFO with lower sulfur IFO or marine gas oil (MGO). Currently, the price differential between low sulfur IFO/HFO and high sulfur HFO is $57 per metric ton in Rotterdam and $90 per metric ton in Singapore.

With HFO prices at $581 and $588 per metric ton in Rotterdam and Singapore, respectively, the current ECA "tax" amounts to 10 percent per metric ton of fuel burned in the European trades and 15 percent for Asian trades.

Come January, the most likely track that carriers will take to meet the new, lower sulfur requirement will be to burn MGO in the ECA. Over the longer term, exhaust scrubbers may be installed, or engines converted to run LNG.

Under today's prices, the ECA tax associated with burning MGO in the European trades would be $405 per metric ton, and in the Asian trades it would be $366 per metric ton. Thus, if prices remain unchanged, the fuel burned in ECA will be between 162 percent and 170 percent more costly per ton than fuel burned in the open ocean.

Of course, the fuel burned in the ECA relative to fuel burned on the open ocean depends on which ports are called and the specifics of the route used. In order to put a concrete number on how we might expect carriers' fuel costs to change as a consequence of the lower sulfur regulations coming into force in January, we modeled two liner services, the Atlantic Express (ATX), which serves the European trade, and the Super Shuttle Express (SSX), which serves the Asia trade.

"Despite significant efficiency gains, carriers will see their fuel expenditures jump in the early months of 2015 as a result of tightening sulfur emissions regulations. And as is the case today, rising fuel costs will be passed on to shippers.

Whereas only one of the six ports connected by the SSX service (LA/Long Beach) is located in an ECA, all seven of the ATX ports of call are located in an ECA. Moreover, the voyage across the open waters of the Pacific is approximately twice that of the Atlantic.

While both the ATX and SSX services, which are representative of the European and Asian trades more generally, will be negatively impacted by the impending sulfur limit reduction, the fuel costs for the ATX will be impacted to a far greater degree.

Operating in an ECA 35 percent of the time, fuel costs associated with operating the ATX will increase by 23 percent as a consequence of shifting from low sulfur HFO/IFO to MGO. By contrast, the vessels in the SSX spend only 8 percent of the time steaming in an ECA, and fuel costs will increase by 6 percent.

Whether through a general rate increase, an Annex VI fuel surcharge, a bunker adjustment factor increase, or through some other means, these higher fuel costs will be passed on to shippers, and that is something to keep in mind as supply chain decisions are made in the months to come. ☐

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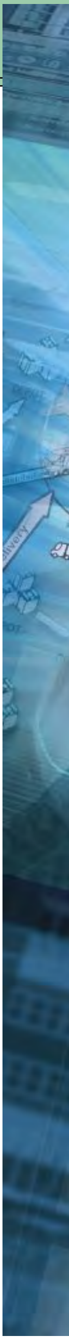


2014 TECHNOLOGY ROUNDTABLE:

The great convergence

BY **BRIDGET McCREA,** CONTRIBUTING EDITOR AND **MICHAEL LEVANS**, GROUP EDITORIAL DIRECTOR

The supply chain technology market is evolving toward platforms and equipment that optimize end-to-end processes. Four top technology analysts offer their unique insight into how the convergence of automation, data, and labor is moving us toward this utopian vision.

Logistics operations now have a full range of supply chain software and enabling hardware at their fingertips, yet even the most well-meaning managers are still facing significant execution issues that technology alone simply can't fix.

And while there's been a lot of buzz around working toward synchronizing end-to-end supply chain data and adding new levels of visibility through a more integrated approach, our *2014 Technology Roundtable* panel reminds us of the vital role of that human integration plays in this transformation process. Today, they say, as technology and labor converge across all functions, emphasis needs to be placed on improving the relationship between the workforce and the collaborative tools—software and equipment—that will make tomorrow's productivity gains possible.

To help us shed light on this "great convergence," we called upon Dwight Klappich, research vice president for Gartner, Inc.; Belinda Griffin, senior manager at Capgemini; Norm Saenz, managing director at supply chain consultancy St. Onge Company; and Steve Banker, director of supply chain solutions at ARC Advisory Group.

Over the next few pages, these leading analysts help us understand how the market is evolving toward platforms and tools that optimize end-to-end processes and help managers better integrate people into a more streamlined workflow across all elements of logistics and supply chain management.

Klappich: Supply chain execution convergence

Logistics Management: *In a 2013 survey by Gartner, the inability to synchronize end-to-end business processes was named as the second biggest obstacle to reaching supply chain goals. With many companies adopting the full suite of supply chain execution (SCE) software, why is this such a major concern?*

Dwight Klappich: If you look at the way most supply chain organizations were traditionally organized, they were broken down into functional silos like planning, sourcing, manufacturing, warehousing, and transportation—and at best they were loosely connected. Furthermore, a high percentage of companies sourced their applications in line with these functional silos resulting in a fragmented portfolio of standalone applications. It's nearly impossible to systematically integrate end-to-end business processes in the fragmented supply chain execution IT environments prevalent in most organizations today.

At best, companies pass data back and forth between applications, but coordinating end-to-end processes across application silos remains elusive. Many companies thought their ERP solutions would eliminate all of these different systems and resolve the end-to-end process problem, but it hasn't. Even in the ERP suites, supply chain management functionality was built as silos. Consequently, a disproportionately high percentage of IT resources and money is invested in maintaining a status quo position, and not in evolving the end-to-end processes to be more effective.

LM: *We've been writing about the concept of "supply chain execution convergence," the idea that the market is evolving toward platforms that optimize end-to-end processes at all levels across the chain. What's the best way to define this convergence?*

Klappich: Supply chain execution (SCE) convergence refers to the growing need for supply chain organizations to do a better job of orchestrating and synchronizing processes, sub-processes, and activities across warehousing, transportation, and manufacturing functional domains. Leading-edge supply chain management (SCM) organizations are beginning to break down application boundaries to drive greater levels of value.

LM: *Can you give us an example of the end-to-end process in action?*

Klappich: Warehousing and manufacturing were historically independent functional silos, and used specialized and narrowly focused departmental applications to solve separate problems. This worked because the enterprise defined the two as independent departments, and built separate processes, systems, and key performance indicators (KPIs) for each group. The problem today is that the end-to-end fulfillment process, for example, spans these areas. Because they are functional silos, it is impractical to coordinate activities across the domains without some form of coordination technology.

Furthermore, the process steps functionally reside in separate applications—typically, ERP or a manufacturing execution system (MES) for manufacturing

JEAN FRANCOIS PODEVIN

management, warehousing for inventory management, and transportation for delivery management. While warehousing management systems (WMS) and transportation management systems (TMS) are obvious points of convergence, they are by no means the only ones.

***LM**: Ideally, when SCE convergence is achieved, what will be the ultimate benefit?*

Klappich: Logistics and supply chain organizations have been able to use their current SCE portfolio approaches to achieve process improvements, normally targeting and removing things such as excess inventory or poor productivity. However, the next opportunities for process and business improvement will require organizations to coordinate and synchronize end-to-end processes such as selling, buying, or making, which will require SCE capabilities to "converge" across or between traditional SCE functional silos.

It's not about how key processes work independently today, but how processes that span functional boundaries should work together in the future. Again, SCE convergence is largely a technology-led evolution, and will require an application foundation that allows for process orchestration and synchronization across functional and application domains.

Griffin: Technology collaboration

***Logistics Management:** We've spent some time on the concept of supply chain execution convergence, now let's shift our focus to the ideas behind supply chain collaboration technologies. Are they related, or is there a distinct differentiation?*

Belinda Griffin: Supply chain collaboration and supply chain execution convergence are related. However, supply chain collaboration is a broader concept that includes not only supply chain execution, which focuses on making better live execution-related decisions, but also encompasses forward looking planning and forecasting activities.

For example, supply chain execution convergence brings shippers, logistics service providers (LSPs), and other supply chain partners together at the time of shipment in a way that promotes shipping efficiencies. Supply chain collaboration is about going beyond this and allowing LSPs to see what capacity is going to be demanded of them during a key future shipping window, such as a seasonal peak period, so they can go ahead and develop mitigation strategies if it looks like they will have inadequate capacity.

Because supply chain collaboration includes a more forward looking perspective, it allows for shippers and their service providers to take more proactive strategies, which in this example might include things like identifying items that can be shipped early or adding capacity and shifting modes for certain items.

***LM:** What are the ultimate benefits of supply chain collaboration technologies once up and running?*

Griffin: Some of the key benefits will include lower inventories, fewer stock outs, an associated improvement in customer service, and reduced expedited charges that manifest themselves not only in terms of actual freight savings, but also in terms of freeing up resources to focus on strategic questions rather than having to devote so much time to fire-fighting in order to avoid late shipments.

In turn, supply chain collaboration technologies extend into other functions such as finance and sales and marketing. For example, finance may use the functionality to forecast and manage cash flow management related activities and sales and marketing may employ the functionality to better manage what delivery dates they can "promise" to a customer.

LM: *How does a supply chain respond when collaboration technologies are put to use?*

The key feature you'll see is that all partners in the supply chain are able to look at and provide input to the same data at any given point in time. Consequently, imbalances are resolved much more quickly than what you would find in a less collaborative model where everyone has to e-mail or call back and forth multiple times and with many partners any time a change is required. What you also see in the long term as a result of this technology-enabled collaboration is that shippers and service providers are much more likely to view each other as true partners who all play a role in ensuring successful supply chain execution.

LM: *Where does a logistics and supply chain operation start in preparing the adoption of collaboration technology?*

Griffin: There are three key steps to successfully preparing to adopt supply chain collaboration technology. First, you need to clean up any relevant data and make sure that it's structured around a logical hierarchy. It's beneficial to look at aggregate data, and if there's a poorly structured hierarchy or, for example, multiple product codes for the same item, the aggregate data will be less accurate and reliable.

Second, determine which product lines, business units, or key service providers to initially pilot the technology on. Because there can be some complexity in setting up a supply chain collaboration technology, it usually works best to pilot it in some sub-set of the business.

Third, socialize the concept with key service suppliers. An organization needs to be able to clearly articulate to suppliers the value of the technology to them so that suppliers don't just see it as something that's going to require more work at their end with little benefit.

Banker: Technology, labor meeting omni-channel

Logistics Management: *It's all about omni-channel fulfillment in the DC, with e-commerce driving software and automation vendors to evolve in unprecedented ways. What are the hottest applications these days?*

Steve Banker: There's no doubt we see omni-channel as the hottest IT spend area in supply chain management. In a recent survey, we found the top four applications mentioned were distributed order management, total landed cost analytics, inventory optimization, and cost of quality analytics when managers were asked which technologies or applications do you believe you need, but don't have, in order to drive a more successful omni-channel initiative.

LM: *With these new fulfillment pressures, warehouse control systems (WCS) have assumed some of the order fulfillment functions that were previously the domain of a warehouse management system (WMS). Due to this transformation, you recently called for a new software architecture that takes distributed intelligence into account. Can you explain how this would work?*

Banker: First, consider how the term "Internet of Things" is being increasingly bandied about these days. In one definition, almost all objects have sensors, connectivity to a broader environment, and intelligence. Sometimes the object just has a sliver of intelligence, but it can be much more substantial. Objects can be products, equipment, containers, or forms of material handling equipment including lift trucks.

How we think about WCS has to evolve to fit the Internet of Things era. What does this mean in concrete terms? An increasing number of materials handling systems, and even components of the larger systems, are gaining both sensors and intelligence. However, existing WCS have not been engineered for this new age.

LM: *Can you give us an example of how this will work?*

Banker: Consider the fact that intelligent forklifts can promote new process flows in the warehouse. When integrated to a WMS, the lift truck's fork can be raised or lowered faster. The WMS directs a forklift to a pick location, and once at that location the forklift knows whether the pallet to be picked is being stored at a height of three feet, six feet, etc. The operator pushes a button on the console and the forks move at the maximum safe speed—a speed considerably faster than the operator would be apt to move them. The most intelligent forklifts today are built with real-time location systems that allow drivers to proceed to a specified location and pick up or put down a load without the need for the driver to scan the location to prove that they have picked up or delivered the right load.

LM: *The idea of distributed order management (DOM), software designed to help multi-channel retailers and manufacturers manage and optimize cross-channel order management, is gaining steam. How is it being applied and how is it working?*

Steve Banker: DOM software provides a common, system-wide view to inventory, along with order fulfillment event management capabilities. A DOM solution is particularly helpful in executing many of the different omni-channel flow paths, such as order at store; fulfill from warehouse; order online and pick-up in store; and order at store and fulfill from another store. To support these kinds of flow paths, the entire inventory across the network needs to be visible in one system and order fulfillment must be logical.

Just because one store is out of inventory and another store close by has that inventory in stock doesn't mean that you should necessarily use the latter. Issues of profitability of that order and customer satisfaction must feed into the decision rules as well. Some large retailers believe that these solutions have only matured in recent years, which may help explain why these projects have become much more popular in recent years.

Saenz: More from the same

Logistics Management: *According to our 2014 findings of our* Warehouse & DC Equipment Study, *activity levels inside the nation's DC facilities are at their highest since 2007. What technology advice do you have for managers looking to make the biggest impact in this continued movement of "doing more with the same" inside the DC?*

Norm Saenz: If your budget isn't large enough for a shiny new Tier 1 WMS, then the next best strategy is enhancing your legacy WMS, expanding your WCS usage, developing your slotting capabilities, or bolting-on a labor management system (LMS). Legacy WMS packages get a bad rap, but if properly enhanced these systems can provide focused productivity gains for your warehouse operations. Your operations personnel can outline functionality enhancements that could make the warehouse more productive, and the IT team likely has the capability to implement such changes.

Inventory "slotting" is an area that could be enhanced within more legacy systems. Operations can identify the framework for the slotting algorithm, taking into account the product size and activity to optimize the location of products within the warehouse. IT can then write a slotting algorithm and programs to capture order history, determine product velocities and cube movement and apply that algorithm for enhanced product location assignments. If the modifications are too complex, then investigating low cost stand-alone packages is another option.

The other booming software to take into consideration is labor management systems (LMS). While most LMS are more expensive than slotting solutions, they're still a fraction of the cost of a new WMS solution and can be integrated within a legacy environment. The gains from the LMS implementation approach itself, involving the development of efficient processes and labor standards, quickly results in increased throughput. Once the LMS is up and running, the improvements continue with the tracking of productivity, feedback to operators and efficient staffing of jobs throughout the warehouse.

LM: *How do you see technology and labor converging inside the distribution center?*

Saenz: I agree with the strategy of focusing on the process and people and then layering in the right mix of technology. Taking it a step further, there should be more integration between processes and the workforce before technology is even considered. When looking for initial DC improvements, technology should be towards the bottom of the list.

A manager should consider process and method improvements, operator training, and workflow/layout improvements, and then study the application

of advanced technologies. As for the advancements in technology, suppliers are continuously humanizing the interface between people and technology and have made great strides, but we have a long-way to go before we reach the levels animated in sci-fi motion pictures.

***LM:** The lift truck is the workhorse of the DC yet it often gets overlooked in technology discussions. How much of an impact is lift truck fleet management software making on cost and productivity inside today's leaner, faster facilities?*

Saenz: In most manual warehouses, labor is the biggest operational cost, but lift truck related maintenance cost comes in a close second or third. Battery management is a large portion of the maintenance costs related to forklifts, given that the cost of new batteries can range from $3,000 to $7,000.

Managers often steer clear of savings related to lift trucks because they're a necessary means to moving product and because the collection of historical information can be time consuming to gather and manage. Driving this point home, how do you keep up with your personal car maintenance? It's not always on the top of your mind to get the quarterly oil change and regular tune-ups. And, the paperwork finds itself in the glove box and file cabinets in your home. Now, imagine a fleet of 20 or more lift trucks driving all over a warehouse with multiple drivers.

***LM:** Our* 2014 Warehouse & DC Equipment Study *tells us that investment in warehouse/DC equipment has cooled a bit after a period of heavy spending. Any final takeaways for those managers who are looking to fine tune their software/technology investments inside the four walls?*

Saenz: Investing wisely is a common practice, but the emphasis on intelligent investment is stronger in a recovering economy. The industry is aware of tightening wallets, and has responded by marketing and developing lower-cost technologies that can provide big savings. There are a growing number of smaller, niche providers of LMS and slotting solutions that have a focus on providing efficient systems, and an affordable price tag.

Voice technology has advanced to providing voice-enabling solutions that require less investment with the same benefits that voice provides. Voice-enabling utilizes an existing RF network and hand-held terminal system and applies a voice application to enable the use of voice commands and instructions. The trend will continue into "happier" economic times, with many gaining the benefits of technology now and readying themselves for more in the future. □

Private Fleet Management: Tailored for success

Best-in-class private fleets are utilizing a blend of technologies and services that are tailored to mitigate costs. Here's how some of the most modern private fleets are being managed in the new era of tightening capacity and tougher regulation.

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

The nation's $300 billion private truck market is thriving. In fact, three out of every four Class 4 through Class 8 trucks on U.S. roads today are from private fleets, operated by such household names as Pepsico, Coca-Cola, Sysco, Wal-Mart, U.S. Foods, and Halliburton.

The private fleet market share of all outbound freight has jumped markedly in recent years. According to a new benchmarking survey by the National Private Truck Council (NPTC), private fleets captured a 78 percent share of all outbound movements in 2013, up 10 percent from 2012.

In addition to outbound, private fleets are gaining market share of inbound freight—40 percent in 2013, up from the 31 percent in 2011. In the meantime, the top 500 private fleets have grown their vehicle count by 50 percent over the past 10 year, according to the NPTC survey.

"The vehicle count alone would suggest that private fleets are the largest sector of the trucking industry and are growing and prospering as a group," says Gary Petty, NPTC president and CEO, who adds that two-thirds of private fleet managers say they plan to grow their fleets in the coming years.

For example, Orgill, the world's largest independent hardware distributor, has 300 drivers today, compared with 180 a decade ago. That private fleet helped support $1.6 billion in sales last year—a whopping increase from its $200 million in revenue in 1992. Orgill operates a private fleet of more than 200 Class 8 trucks.

According to Petty, there are three major reasons why companies like Orgill are able to see this level of growth with the help of a well managed private fleet operation. "It allows them to gain direct control of transportation capacity on demand, control costs, and provide consistently high levels of service," adds Petty.

In *LM*'s annual analysis of the private trucking sector, we'll examine the mounting challenges facing private fleets, disclose some tips and strategies that the best fleets are using to overcome roadblocks, and unlock the cost/benefit equations realized from operating a tightly-managed, modern private fleet.

Mounting challenges

Capacity is at the top of most shippers' minds these days. The nation's for-hire fleets are operating roughly the same number of trucks as they were in 2008 before the recession wreaked havoc on the industry.

Since then, for-hire fleets have rebuilt capacity, albeit cautiously. However, fleets can only expand incrementally these days due to the fact that compliant drivers are scarce and cost more. Making matters even more challenging on the driver front, the Obama administration continues to crack down on unsafe drivers through tougher enforcement and by heaping more regulations on fleets—and it's expected to get worse.

Thomas Albrecht, trucking analyst for BB&T Capital Markets, estimates that the newest mandate of electronic logging devices (ELDs) required on all trucks by 2016 will cause company drivers to lose about 3 percent to 4 percent in miles, with owner-operators likely to suffer a 5 percent to 8 percent hit. "ELDs will make it nearly impossible to cheat on a driver's hours of service," says Albrecht.

Because private fleets already have ELDs, their productivity hit from the new rule will be minimal. "That goes hand in hand with a private fleet's ability to absorb and adapt to changes in regulations and enforcement," says Albrecht, "which have been coming at breakneck speeds toward all trucking operators in the past decade."

According to the NPTC, the No. 1

Daniel Vasconellos

challenge for private fleets is change and the rapid pace of that change. There are emission changes, changes in the Federal Motor Carrier Safety Administration (FMCSA) requirements, and changes in the driver landscape and pay.

Even though the best private fleets are adapting to these changes, they're hardly immune from their effects. But private fleets do appear to be a step ahead when it comes to embracing technology as well as in their ability to utilize drivers as a strategic part of their operations.

"Certainly a big part of what we do is deliver product," says Doug Sanford, vice president of distribution for The Britt Hunt Co., the largest distributor of Hunt Brothers Pizza. Its fleet of 77 professional drivers and 25 professional sellers operate 103 vehicles—mostly Class 6 trucks or smaller—in an area covering 14 states, delivering a line of products and services designed for convenience stores.

"It's important to note that our dedicated people are more than just delivery drivers," says Sanford, "they're company representatives striving to bring additional value to their customers beyond just the product."

Tips and strategies

Overall, the key to operating a successful private fleet is a professional and well-trained transportation team that can measure its performance against the best of their peers.

"The best private fleets are testing every route and every run to make sure that the application of a private fleet is the right choice," says NPTC's Petty. "If it isn't, it makes no sense to operate in that particular lane or region."

Most private fleets are "blended operations," made up of a mixture of private and for-hire capacity, while many fleets also have for-hire operating authority. In fact, nearly two of every three private fleets have for-hire authority, a percentage that has stayed roughly the same over the past four years.

Another strategy private fleets use to boost efficiency is the use of "slip-seating," or assigning more than one driver to a piece of equipment. This technique allows one driver to haul a load to a certain destination, and then allows another driver to take over, adding up to better equipment utilization and faster service. Sixty-nine percent of NPTC survey respondents say that they're using this technique for at least a portion of their fleet, while 23 percent say that they slip-seated their entire fleet.

Reducing empty miles, a goal of any trucking operation, is another technique that the best fleets use to mitigate their costs. Last year, private fleets reported a significant reduction in empty miles, down to 21.5 percent of overall miles traveled. That's a dramatic decrease from the 30 percent of overall miles reported just four years ago. Most large, for-hire TL fleets now report empty miles in the 11 percent to 13 percent range, depending on seasonality and other factors.

Private van fleets reported 17.5 percent empty miles, while reefer fleets reported 22 percent. Even private fleet flatbed and bulk operations, which traditionally have tough challenges on backhaul lanes, had empty miles of 27.5 and 21 percent, respectively. "That's a very dramatic and positive trend," Petty says.

According to the NPTC survey, the best-run private fleet operators say that they have three components in place that help them achieve long-term success: A cultural commitment and the support of upper management; a sound business model that allows command and control of capacity to make a company's product or services seamless for the customer; and a tactical execution of trucking's "blocking and tackling."

Benefits abound

The benefits of a successful private fleet are many, but most are associated with delivering higher levels of customer service and branding.

However, the best private fleets do more than provide top-notch service for their companies. Increasingly, they're being used as leverage against for-hire carrier service and pricing. Some 71 percent of respondents in the NPTC benchmarking survey said that they use their fleet as such a hedge, up from 51 percent five years ago.

And those private fleets appear to be operating much more safely than their for-hire brethren. The Federal Motor Carrier Safety Administration estimates that private fleets are operating about three times more safely than the for-hire side. In an era when jury award in wrongful death trucking lawsuits can exceed $20 million, that is money in the bank. The primary reasons for such safe operations are newer equipment and better-trained and more experienced drivers.

The most recent report from the American Trucking Associations has for-hire truckload driver turnover in the 95 percent annual range; however, driver turnover among private fleets is around 10 percent. According to the NPTC survey, there's no secret to this.

Private fleet drivers are paid more, an average of $62,163 in 2013—up more than $2,000 from the previous year. Starting pay is around $50,000, but jumps up to an average of $61,545 in three years. Maximum pay for private fleet drivers was $71,733, up more than $4,000 from the previous year's maximum, and about $10,000 more than the non-union average in the for-hire sector.

When considering these better wages, it's important to keep in mind that a typical private fleet driver spends 35 percent to 40 percent of his time devoted to non-driving functions, such as being at stores, DCs, or delivering product face-to-face and interacting with external and internal customers. Those are skills that go well beyond operating a truck and would be hard to replicate in the open market when shippers are buying capacity.

So, even as the best private fleets operate as a balancing act between cost and service, the best private fleet managers say those costs can be mitigated. In an era of tightening supply and looming capacity shortages, private fleets appear to hold some key advantages.

—John D. Schulz, is a Contributing Editor to Logistics Management

Tips for getting and keeping the best drivers

Private fleet managers say there is no secret to best practices in management of their driver work force. They have boiled their best advice into a six-point program.

1. Recruit experienced drivers with verifiable safety records.

2. Get them the miles they desire and get them home when they would like to be home.

3. Pay them salary in the upper quartile of the industry ($60,000 or above).

4. Treat them like they are the key to the company's success.

5. Offer bonuses for safety, fuel efficiency, productivity, and on-time pickup and on-time delivery.

6. Conduct exit interviews and work to eliminate the most common reasons for a driver's departure from your fleet.

—by John D. Schulz, Contributing Editor

Free private fleet tracking service launched by Detroit start-up

Ever wish you could more easily keep your customers informed of delays or updates for deliveries, repairs, and other scheduled appointments? Now, there's an app for that.

Detroit-based Locqus has launched a free service that helps businesses manage sales, jobs, billing, and drivers in the field. The start-up company is pitching itself to private fleet managers to enable those companies to automatically share real-time updates to scheduled appointments while in transit to a job.

"And it's 100 percent free," says Rob Feldman, Locqus' vice president of business development, adding that it's ideal for private fleets with tight schedules.

—by John D. Schulz, Contributing Editor

State of LMS: Earning respect

While many logistics professionals took a "wait and see" attitude toward labor management systems (LMS), today they're hearing stories about significant productivity gains in exchange for a fairly low-cost software solution.

BY **BRIDGET McCREA,** CONTRIBUTING EDITOR

The cost and effort that go into managing labor is no joke. For most organizations, in fact, labor ranks as the biggest cost of doing business. Not only are there salaries, benefits, and bonuses to regularly shell out, but every payroll error, compliance issue, or accidental overpayment eats away at a company's bottom line.

To help control these costs and ensure that all payouts are warranted and earned inside a logistics operation, an increasing number of companies are turning to labor management systems (LMS). Defined by research giant Gartner as a system that provides labor productivity reporting and planning capabilities, LMS can analyze workforce requirements based on a certain amount of work to be performed and a standard unit of time to carry out each element of work.

These labor productivity planning capabilities provide the ability to measure and report the performance of individuals, groups, or facilities and compare that data to a predefined standard for performing each defined element of work. Put simply, an LMS uses historical data to accurately estimate throughput in the warehouse and then uses that information to schedule regular, overtime, and/or temporary labor in a way that accommodates shifting demand, such as seasonal fluctuations.

Over the next few pages we'll look at how LMS is currently being put to use inside logistics operations, show both the latest and the expected advancements for this software sector, and then hear from a manufacturer that recently streamlined its timekeeping and reporting processes with a new labor management system.

Momentum is building

The fact that logistics professionals are hearing and reading about companies that are seeing real results from their investments in LMS is prompting more interest in the software, according to Norman Saenz, managing director at supply chain consultancy St. Onge Company. "They're hearing the stories about productivity gains in exchange for a fairly low-cost software solution," Saenz explains, "and they want to see some of those solid benefits themselves."

What makes LMS particularly enticing for logistics operations, Saenz notes, is its ability to go beyond the norm and "naturally drive process improvements" within an organization. "It's more than just software; it actually looks at the processes that the company is going to be measuring," says Saenz, "thus promoting a review of the organization's audit methods, standards, preferred ways of doing things, and so forth."

With the resultant information in hand, logistics professionals can improve on those processes before they even officially roll out the LMS. "The whole process of studying labor standards is a benefit of installing an LMS," says Saenz. "That's the first step because you have to look at the job that's being standardized and the methods that you want to be measuring." In many cases, this "up front" assessment of existing can naturally lead to productivity improvements and then pave the way for successful LMS implementations.

But wait, there's more. Once in place, an LMS can help an operation achieve up to 30 percent in labor savings—yet another benefit of automating a process that for many is still rooted in paper timecards, antiquated timekeeping systems, and manual reporting and reviews. In most cases, Saenz says those benefits are centered within the four walls of the warehouse and distribution center (DC), where

different positions and tasks can be effectively standardized to ensure that the right person is doing the right job and within the specified timeframe.

Saenz, who works with managers to evaluate their LMS options, points to best of breed vendors like Kronos, Spalding Software, and Next View Software, and multifaceted software developers like Infor (which owns Workbrain), Manhattan Associates, High Jump, and RedPrairie/JDA as a few of the choices available on the market today. He sees the LMS sector as particularly ripe for new and existing best of breed vendors that can come up with innovative and cutting-edge labor management capabilities.

"As the bigger vendors look at doing large software installations, versus $100,000 LMS projects, that leaves the door open for smaller firms," adds Saenz.

Time to rock the boat

Ask John Frehse, managing partner at New York-based workforce management consultancy CorePractice, why more companies haven't historically used LMS and he says cost justification is the major holdup and that it's followed closely by the emotional aspect of employee labor management.

On one hand, Frehse says logistics professionals haven't always had the proof that they need to justify an LMS installation, and that the potential labor disruptions that can surface have also kept companies at bay.

"Even when you can justify the cost of an LMS, do you really want to rock the boat?" Frehse asks. "Getting over that hump has been a big challenge for warehouse/DC operations, which tend to spend money everywhere else before actually talking to their employees."

But that landscape is beginning to change. Forced to shave 5 percent to 10 percent of their operating budgets every year, Frehse says that more logistics professionals are warming up to the idea of opening workforce management conversations with their staff members. As part of that initiative, an increasing number are turning to technology for help.

"LMS software has gotten more mature and now includes more features and functionalities," says Frehse. "And, quite frankly, most warehouse/DC operations have nowhere else to go to capture cost savings." Take variable demand planning, for example. Unlike the more predictable seasonal planning, management of variable labor requires an automated, analytical approach that can't be tackled effectively with paper, pencil, and telephones.

Using an LMS, warehouse management can quickly pick up on leaks in productivity, view real-time productivity levels, identify deviations, and take immediate action. "You can do course corrections on the spot rather than a week later, when you have already missed your chance to optimize your high-cost employees," says Frehse adding that the time savings alone translates into significant bottom line savings for the organization.

Maple Leaf Cheese: LMS increases efficiency

With 162 employees working in four locations, Maple Leaf Cheese of Monroe, Wis., historically relied on a mix of paper timecards, an older timekeeping system, and courier-delivered time reports to manage its labor force. Once collected, the reports were handed over to an HR staff member who manually calculated employee hours and inputted data into a spreadsheet for an outside accounting firm/payroll processor.

The system was arduous at best, but was replaced in 2013 when the inevitable happened. "The time clock at our largest facility broke," says Vicki Bergendal, IT administrator for the company that encompasses Maple Leaf Cheese, Edelweiss Creamery, and Alpine Slicing & Cheese Conversion. The three manufacturers operate independently, but share operational resources (IT, payroll, human resources, and administration) and have collectively doubled in size since 2007.

Rather than simply replace its old time clock, Maple Leaf looked around for an LMS that would help streamline and centralize the employee time-keeping and reporting process across all of its facilities.

Top criteria for the solution included the ability to calculate and accumulate time automatically; payroll capabilities (should Maple Leaf decide to bring that function in-house); around-the-clock technical support from the vendor; and the ability to interface with the manufacturer's existing Microsoft Great Plains financial software.

After shopping around, the company selected Kronos' Workforce Ready Timekeeper and HR software solutions and the vendor's InTouch time clock. Today, all of Maple Leaf's hourly, salaried, and temporary workers—including those in the warehouse—punch in and out on the time clock, which converts that time to decimal hours and calculates pay rates.

The human resources professional who once handled the manual calculations uses that time saved to monitor for missed punches and discern vacation days from unexcused time off. Maple Leaf also uses its LMS to assign labor cost information to specific line or job function (creating cheese chunks versus slices versus sticks, for example) and ensure that the work time is allocated to the right cost center.

The solution has also helped Maple Leaf gain logistics and cost efficiencies that it previously wasn't able to attain. "Our ability to get hours by cost center so we can see our efficiency—something we couldn't do before—helps us determine cost quotations," says Bergendal. "Seeing the hours helps us determine the cost of manufacturing, packaging, distribution, and other expenses."

Maple Leaf, which has historically been challenged by attendance issues, has also established a point system whereby employees get "points" for not showing up on time for the 4:00 a.m. shift, for example, or for taking unexcused work absences. "Those reports are reviewed daily by supervisors who can quickly address any issues," says Bergendal, "such as someone forgetting to punch in for the day." Attendance has improved significantly since the point system was implemented, she adds.

Bergendal, who says Maple Leaf encountered no significant challenges during the LMS installation or implementation phases, sees 2014 as the year the company further expands the use of its solution to, for example, allow employees to enter time off requests right into the clocks. "We're through the training phase," she says, "and ready to make more use of the system."

—Bridget McCrea, Contributing Editor

Final frontier

As technology continues to evolve and as warehouse/DC workforce management needs change, LMS vendors are more than likely to develop new functionalities and capabilities to roll with the changes.

A few vendors have already created mobile solutions that allow supervisors and managers to use their LMS while walking around on the DC floor, says Frehse. Still others are exploring the use of location software and Bluetooth technology to easily pinpoint where employees and equipment (lift tracks, pallet jacks) are at any given time within the facility.

"Managers will be able to use the technology to triangulate where someone is in the warehouse, measure travel times, and identify false picks and other wasted trips," says Frehse. "Location management for workers is the final frontier for labor management in the DC," Frehse says. "And even though it makes people a little uneasy, it's an incredibly effective tool from a business perspective."

Bridget McCrea is a Contributing Editor to Logistics Management

The state of cloud

WMS lags behind other categories in cloud adoption, but is poised for growth as solutions scale up to meet the needs of larger sites.

BY **ROBERTO MICHEL**, EDITOR AT LARGE

For all of the hype about cloud computing in recent years, when it comes to the cloud for deploying supply chain execution (SCE) software such as warehouse management system (WMS) solutions, the numbers tell a pretty modest story. While some other enterprise software categories such as customer relationship management (CRM) have seen cloud solutions catch on in a significant way, the SCE segment lags behind. For instance, cloud-based WMS sales in 2013 only accounted for about 8 percent of the WMS market, according to Chad Eschinger, an analyst with Gartner Research.

By comparison, Gartner estimates that 45 percent of the CRM market was cloud-based in 2013, while the overall supply chain management software market was 21 percent cloud in 2013.

"Cloud adoption for warehouse management is pretty nascent today," says Eschinger. "We haven't seen a huge onslaught of activity. There are some vendors winning deals out there, but I would call many of these less sophisticated warehouse environments."

ARC Advisory Group, another analyst firm, also pegs the cloud share of the WMS market at less than 10 percent, though it sees more externally focused logistics solutions such as global trade management (GTM) at much higher cloud penetration.

Why are some cloud-based SCE solutions, particularly WMS, not catching on strongly? There are multiple theories as to why, led by the notion that users aren't quite ready to trust the cloud for a transaction-heavy, more internally oriented systems, which are critical to tactical execution. For instance, notes

solutions for the warehouse

Eschinger, the enterprise resource planning (ERP) market also has relatively low cloud sales, and the categories with higher rates tend to be areas like CRM or human capital management.

Other hurdles for cloud-based WMS include the perception that cloud solutions can't handle large sites, or that in far-flung regions cloud reliability becomes a factor. But suppliers of cloud-based SCE solutions say the realities of the market are changing. Cloud WMS, some suppliers contend, is scaling up to handle bigger, more complex environments, including integration with automated materials handling systems.

"One myth out there is that cloud WMS does not offer rich, Tier 1 functionality—that the solutions are less mature than on-premise solutions," says Larry Ferrere, chief marketing officer for LogFire, a cloud-based vendor of SCE solutions including WMS. "While it's fair to say that cloud solutions generally tend to be less mature than on-premise ones because the cloud segment is much newer, that doesn't mean that a particular cloud solution cannot be functionally rich."

The proof points, says Ferrere, come from LogFire's customer base, where users such as Supermercados Peruanos, a large grocery chain in South America, has 350 users of the LogFire Cloud WMS at its main distribution center. That site also has automated equipment such as conveyors and sortation systems integrated with the WMS.

For end-user organizations, cloud solutions promise lower upfront costs because there are no servers to install in-house, and also because the software is paid for on a subscription-based "software as a service" (SaaS) model. To assess the state of cloud SCE, users need to know about approaches to cloud architecture, and must judge for themselves whether a solution has the depth and flexibility to meet evolving needs.

Why architecture matters

Most cloud solutions are offered under a SaaS model, and many, but not all, feature a "multi-tenant" architecture. Multi-tenant means that all user companies tap the same code base for the core functionality, with a separate layer of software to handle customizations such as workflows, alerts, reports, forms, and labels. The users of a multi-tenant system can't change the core software, but that doesn't mean they can't adapt the system, explains Ranga Bodla, senior director of industry marketing for manufacturing and distribution at cloud-based vendor NetSuite.

"We allow you to customize," says Bodla. "The changes can be as simple as look and feel, or more complex, like adding tables, adding fields or entire application workflows. All of these changes, when we do an upgrade, will seamlessly migrate to the new version."

A multi-tenant architecture, says Bodla, avoids a common pitfall of internally run software: modifications to core code that get users and vendors alike bogged down in release migration work. "From a research and development perspective, we're able to focus all of our attention on the innovation for the next version of the software, as opposed to band-aiding multiple older versions," says Bodla.

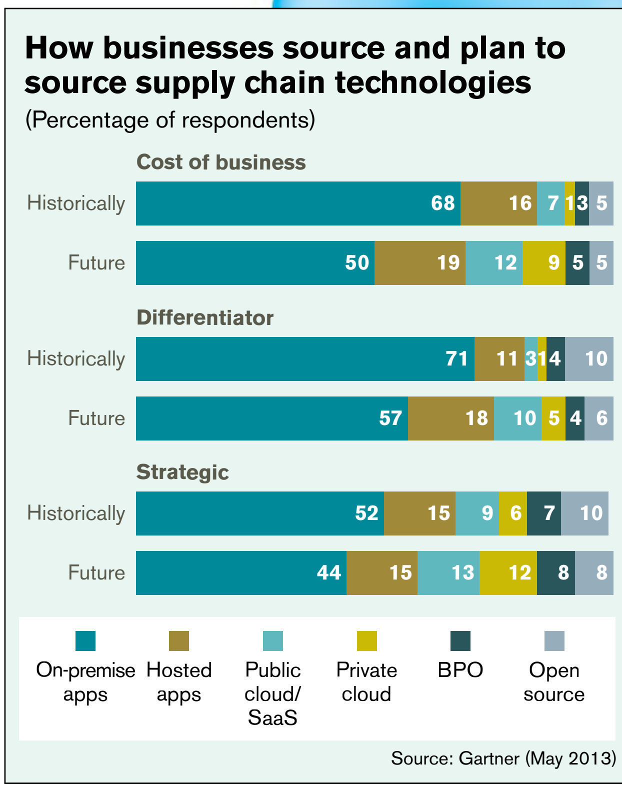
NetSuite's customization platform was tapped by eBizNET Solutions to create a suite of cloud-based SCE applications, including a WMS, aimed at small to mid-market companies.

"I think it's a misconception to believe that a multi-tenant cloud system can't be customized to meet specific business processes," says Sitaram Geddam, eBizNet's founder and CEO. "That may have been true a few years back, but I think we've come a long way since then. Just the fact that eBizNet can build an entire WMS using the tools from NetSuite—the same tools available to all their customers—speaks to the adaptability issue."

Typically, adds Geddam, users of eBizNet's WMS want to customize reports, forms like packing lists, as well as shipping or other labels. The customization layer from NetSuite also gives users the flexibility to create alerts, workflows or change the look of screens. For example, a user company can add an expiration alert to a batch of goods.

For Epicuren, a user of NetSuite's cloud ERP solution and eBizNet's WMS, a key benefit was speedy implementation. Epicuren, a Laguna Hills, Calif.-based manufacturer and distributor of skin care products, was able to implement the joint solution in just four months, going live in January 2012, according to Brian Douglas, project manager for Epicuren.

The WMS functionality met Epicuren's need to have tight control over lot- and expiration-date sensitive materials and order planning processes, says Douglas, while the cloud model supported rapid implementation.



Cloud and SaaS choices for supply chain software are becoming more common, especially for companies that see supply chain as strategic, as opposed to being a cost of doing business or as a differentiator, but not strategic.

Fit and function

Some cloud solutions are aimed primarily at small- to mid-sized companies, or relatively smaller sites of large companies. Most of eBizNet's WMS users, says Geddam, have five to 50 users, and transaction volume is less than 20,000 order lines per day.

LogFire, however, positions its cloud WMS as capable of handling large sites. According to Ferrere, this means the solution not only needs to handle larger user counts and volumes, but also have multi-site and "multi-entity" capabilities.

Additionally, says Ferrere, a Tier 1 WMS today also should support multi-channel fulfillment, meaning the system needs to be just as adept at managing items as it does cases, while also being able to stage goods for parcel shipments. The trouble in meeting the multi-fulfillment challenge with WMS, says Ferrere, is that in many cases, on-premise solutions that were heavily customized have become so bogged down by release migration issues that the user companies can't get onto newer software geared for multi-channel needs.

According to Diego Pantoja-Navajas, LogFire's founder and CEO, LogFire's WMS was conceived "from the ground up" to be a Tier 1 level solution capable of handling larger, complex operations. One user site, he says, is processing about 400,000 order lines per day. "These are large facilities with fast moving items," he says.

Deploying a cloud WMS for a larger site still takes plenty of planning in terms of how to best configure the solution to meet desired procedures, and proper testing of integration to automated systems. In other words, there is no shortcut to business requirements planning and integration steps, notes Pantoja-Navajas. But with cloud WMS, he adds, it's simple for the vendor to allocate more capacity if the user company expects a stretch of heavy volume during peak seasons, or for other rapid changes.

Cloud reliability issues

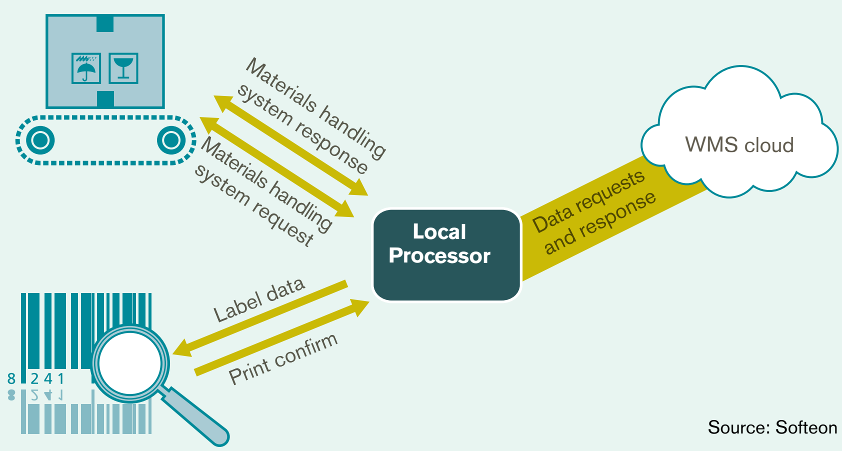
Satish Kumar, a vice president with Softeon, which offers a cloud-based WMS, agrees that it is easy for a cloud solution to scale up to accommodate more users or higher peak volumes. "We host on Amazon [Amazon's cloud infrastructure], so it's elastic—we can expand the capacity as much as needed in just a few minutes," Kumar says.

But this potential strong suit of the cloud—the ease of tapping large server farms run by someone else—also carries a potential downside in that if you lose your cloud connection, you're solution access goes down. Clint Reiser, a research analyst with ARC, says the reliability of cloud connections is an issue that potential users should examine carefully, especially in emerging markets where telecommunications may be unreliable.

Cloud vendors, however, say having a back-up cloud connection for each site can mitigate cloud connectivity concerns. Users also typically need backup power protection for the site's network gear. Such reliability measures, however, are already normal practices for industrial sites in emerging markets, says Geddam. "It's easier and cheaper today to have redundant cloud connectivity than to try to have redundant systems and data center infrastructure at every single site," he says.

Kumar agrees that performance concerns can be dealt with easily. In Softeon's case, it offers the option of a local server running a software agent to handle time-sensitive WMS interactions such as label printing or communications with automated materials handling systems.

Optional use of a local processing layer option for a cloud WMS



Softeon offers users of its cloud WMS solution the option of deploying a local server with a software agent to rapidly handle time-sensitive system communications.

To date, the SCE solutions that have done best at the cloud are categories such as transportation management and GTM that are naturally more network-centric. But as more vendors come forward with cloud solutions with more functional depth, flexibility and ability to handle large sites, WMS in the cloud is poised to grow.

"Who would have thought a few years ago we would see companies moving office software to the cloud, but now it's commonplace," says Kumar. "Similarly, supply chain apps will move into the cloud because of the reduced capital costs, the extensibility, and the speed of how quickly the solutions can be deployed." □

Cloud SCE not strictly a "pure-play" proposition

The competition to capture the market for "cloud-based" warehouse management system (WMS) software and other supply chain execution solutions isn't limited to pure-play cloud vendors. Established vendors who got their start with "on-premise" solutions also may offer cloud solutions.

For example, Epicor Software, a provider of enterprise resources planning (ERP) and WMS solutions, is enhancing its lineup of cloud-based solutions, according to Erik Johnson, vice president of technical strategy. For four years, the supplier has offered a cloud ERP and warehouse management solution called Epicor Distribution Express, which has about 300 deployments and is aimed at small- to mid-sized organizations. The solution features a "multi-tenant" architecture that allows for easy upgrades by separating the core functionality from the configuration layer. The "enterprise" edition of Epicor's distribution solution has been offered as a cloud-hosted solution, but until now, has not been multi-tenant.

With the next release of the enterprise edition in May 2014, says Johnson, the solution will have a multi-tenant architecture. "This will provide a lot of customization flexibility, and because this ability is separate from the base code, it isn't going to interfere with users' ability to easily migrate their customizations," says Johnson.

Best-of-breed WMS suppliers also may offer cloud solutions, such as HighJump Software, which began offering its "HighJump WMS in the Cloud" back in 2010, and has 12 customer organizations using it, some at multiple sites. HighJump says it uses a single instance, single-tenant architecture with the cloud WMS to provide the same level of flexibility as its on-premise solution.

According to Craig Moore, a territory manager for HighJump, the architecture of HighJump's solution makes a performance difference in that when users need information from the cloud, rather than having to transmit all data associated with a larger process, the system breaks requests down into bite-sized packets of information. "These packets are small enough that they don't affect response time, even when you have higher order volumes and many users," said Moore.

Pure-play cloud SCE vendors also report that in some cases, they have customers who want to stay with an on-premise solution for ERP or WMS, but use a cloud solution for functions such as spare parts management, transportation management, or reverse logistics. "There are many customers who want to take a hybrid approach," says Sitaram Geddam, founder and CEO of a cloud SCE software vendor eBizNet Solutions. "Some users will have an internally run ERP or WMS backbone, but will use one of our cloud solutions for extended functionality."

—By Roberto Michel, Editor at Large

Global Logistics: European Report

2014 European Report:

Closing the trade barrier gaps

As the EU slowly recovers from its economic doldrums, member nations vie for U.S. investment and logistical services while shippers increase their willingness to enlarge operations on the continent.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

With $1 trillion in trade taking place between the U.S. and the 27 nations comprising the European Union (EU), the potential impact of a new transatlantic trade pact is truly significant. The combined population of 800 million generates almost half of the world's gross domestic product and represents 40 percent of global trade.

But while negotiators for the Transatlantic Trade and Investment Partnership (TTIP) have yet to iron out a deal, savvy U.S. shippers have begun to vet logistics providers and EU supply chain networks to take advantage of expected changes in market access, regulatory aspects, and rules.

"The biggest transatlantic trade bonanza lies in reduction of non-tariff barriers," says Ann Bruno, vice president of international operations of ICAT Logistics. "If TTIP negotiators succeed in eliminating only half of the non-tariff barriers, the GDPs of both the U.S. and the EU will increase by 3 percent."

Fortunately, adds Bruno, railroads, shipping lines, air freight companies and ports will have plenty of time to prepare for the coming "TTIP-ing" point in transatlantic trade.

Poland: Investment playing off

Way ahead of the game in this regard, is Poland, which continues to serve as an example of how to capture and grow its logistical network.

"We see more countries in the EU attracting investment in infrastructure, following Poland's example," says Richard Thompson, global head of supply chain and logistics solutions at real estate services firm Jones Lang LaSalle (JLL). "Poland is currently the third largest market for U.S. multinationals behind China and India, with companies like Proctor & Gamble and Kimberly Clark leading the way."

According to Thompson, U.S. shippers looking to optimize their presence in the EU are also looking for "sustainable" transport models linking seaports, airports, warehousing, and point-of-sale destinations.

"Just as it has been in the States, intermodalism is growing like crazy in Poland and neighboring countries," says Thompson. "We're seeing much less reliance on trucking, and more use of short rail. It goes without saying that e-commerce is going to trend up in the EU as well."

Analysts with Colliers International, another leading commercial real estate service, contend that the industrial and logistics market in Europe is on track to grow exponentially over the next 10 years, with Poland set to benefit the most. Indeed, more than 350 U.S. firms now have offices, factories, subsidiaries, or joint ventures operating in Poland.

"Poland's predicted presence in the top three, in terms of consumer spending and manufacturing increases within Europe, means that it's set to play a huge role in the future of the European logistics markets," says Karel Stransky, director of corporate solutions at Colliers.

Amazon.com Inc., the world's largest e-commerce company, recently hired more than 6,000 permanent employees in three new logistics centers in Poland to build capacity for further expansion in Europe. "Poland's central location in Europe, proximity to Amazon's European clients, and access to a skilled workforce were among the reasons for Amazon's investment decision," says Tim Collins, director of the e-retailer's European operations.

According to Collins, Amazon plans to open two centers near Wroclaw in southwestern Poland and one facility near the city of Poznan, 150 miles east of Berlin. The Poznan center and one of the Wroclaw centers will open in August 2014, while the second Wroclaw logistics hub will start operations in mid-2015. The announcement came as scant surprise to FedEx Express, which has been active in the region for the past several years.

"The strong position of the Polish economy and tremendous popularity of e-commerce have both contributed to increasing demand for shipping services," says Michael Ducker, chief operating officer of FedEx Express. "We view Poland as a key market for investment and growth."

Germany: Growing connections

Four years ago, FedEx relocated its Central and Eastern European hub from Frankfurt to Cologne to advance its agenda in the region. UPS, another dominant EU logistics player, has also targeted Germany's Cologne/Bonn Airport for the future by announcing a $200 million expansion—its largest facility investments in the company's history.

"With this upgrade, we now have the equivalent of 15 football fields of sorting space for a growing export economy on the move," says Cindy Miller, president of UPS Europe. "All of this ensures that UPS' Cologne/Bonn air hub remains the centerpiece of the company's European express network, a key component of UPS' global air operations."

The operating area now at Cologne/Bonn measures more than 1,130,000 square feet. The addition of eight automated sorters increases the hub's package sorting capacity by 70 percent to 190,000 packages per hour—or around 53 packages per second. The conveyor system now delivers a package just 15 minutes through the hub from unload to load point.

"This is part of a long-term strategy to help shippers successfully compete and do business on the important trading lanes within Europe and linking Europe to North America and Asia in an era when free trade agreements on the horizon promise growth for companies large and small," adds Miller.

Frankfurt Airport (FRA), meanwhile, achieved a new annual record in cargo growth to 2.1 million metric tons last year. Just this past January, FRA's cargo throughput (airfreight and airmail) advanced 7.2 percent to 160,970 metric tons. Infrastructure continues to expand, too.

"FRA is the only major airport in Europe to open a brand new runway [in 2011], followed by a large Pier A-Plus terminal expansion in 2012," says Anke Giesen, Fraport AG's executive board member and executive director of ground handling. "Furthermore, new on-airport development sites are available at our freight station, CargoCity."

DB Schenker, a leading European integrated logistics service provider, opened its new European headquarters here in late 2013. And this year, the House of Logistics and Mobility, the world's first airport university campus, will locate there as well, providing ongoing education for U.S. and EU logistics managers.

While Germany's Hanseatic city of Hamburg is known chiefly for its seaport, U.S. air shippers are beginning to take note of it as well. Earlier this year, Hamburg Airport began construction on its new Hamburg Airport Cargo Center (HACC). Modern facilities here will replace the existing air cargo center. The new facility will be 645,834 square feet and will open in summer 2015.

"We're investing around 45 million euro from our own funds in the modern airfreight facilities," says Michael Eggenschwiler, the airport's CEO. "The design of the Cargo Center was planned in cooperation with the

EU Logistics: Reduced red tape, consistent green standards at core of success

At the 6th European Logistics Summit in Brussels last month, Charlie Dobbie, executive vice president for global network operations at DHL Express, presented European Commissioner for the Environment Janez Potocnik with key recommendations to ensure comparable, simple, and valuable environmental and carbon reporting for the logistics sector.

Speaking on behalf of the Alliance for European Logistics (AEL), Dobbie called for the promotion of a consistent global standard for carbon calculation and reporting in the transport of goods, ensuring Europe's approach is fully aligned within existing international frameworks.

"As much as 15 percent of final product costs are logistics costs," says Dobbie. "A more consistent standard would reduce complexity in the supply chain, reduce product costs, and increase European competitiveness for the benefit of business and consumers alike. It would contribute to unlock economic growth and jobs creation."

The AEL maintains that any environmental footprint obligations should be easy to implement, provide comparable information and value to shippers. At the same time, the EU should offer incentives that reward and support industry initiatives to meet reporting standards that already exist.

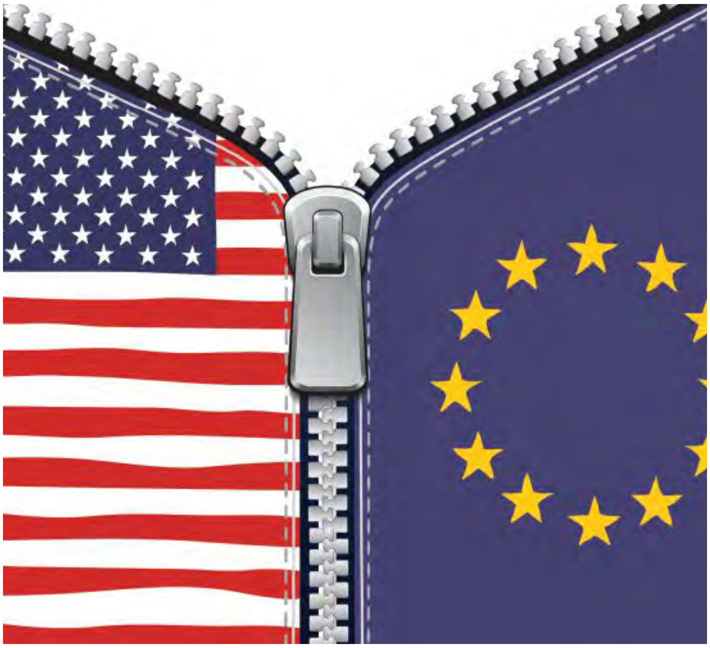
Looking forward to the publication of the *Logistics Roadmap* by the European Commission later this year, the Summit also saw a discussion on cutting red tape and simplifying regulatory requirements impacting logistics.

"Today, border management and protection processes are key factors for logistics companies to decide where to enter the EU. While EU rules exist, there are still major differences among the EU Member States in their implementation," says Dobbie. "There is a strong need to simplify EU import and export rules and to establish a 'single window' approach for trade to boost growth in the EU."

The AEL promotes a new policy agenda for logistics services in Europe. It brings together both the major providers of logistics services in Europe as well as global companies that rely on efficient logistics for the successful execution of their business operations.

Its current membership consists of BASF, CEVA Logistics, Deutsche Post DHL, duisport, Hapag-Lloyd, Hutchison Europe, IVECO, Kuehne + Nagel, Michelin, Motorola Solutions, and SAP.

—Patrick Burnson, Executive Editor



While negotiators for the Transatlantic Trade and Investment Partnership (TTIP) have yet to iron out a deal, savvy U.S. shippers have begun to vet logistics providers and EU supply chain networks to take advantage of expected changes in market access, regulatory aspects, and rules.

freight forwarding companies already based there."

The airport has a high tenanting ratio, with around 85 percent of the space either already under contract or fully negotiated and ready for contract. HACC, which includes offices, will have an annual capacity of up to 150,000 tons of cargo.

EU's big three ports

According to JLL's Thompson, U.S. shippers should concentrate on a trio of ocean cargo gateways when considering ocean freight penetration into the EU: Hamburg, Anwerp, and the "mega" port of Rotterdam.

Emile Hoogsteden, director of containers and logistics at the Port of Rotterdam Authority, says that the port is optimizing its supply chain network with the ongoing development of Maasvlakte 2—an extension of its existing industrial warehousing space along with expansion of Rotterdam Mainport Development Project (PMR).

"Nowhere else in Europe will the largest ships in the world be able to moor 24 hours a day," says Hoogsteden.

With nearly 30 percent of Northern Europe's annual container imports and exports passing through the Port of Rotterdam, the region is unsurprisingly a major focal point for manufacturers and retailers in European supply chain operations.

For example, Menlo Worldwide Logistics, the global logistics and supply chain management unit of Con-way Inc. is now looking to develop its business at the 93,000-square-foot facility in Rotterdam still further. According to Tony Gunn, Menlo's managing director in Europe, 57 percent of all Asian- and U.S.-sourced products have a European distribution center located in the Netherlands. "And a significant proportion of these are in the Rotterdam region due in large part to the flexibility that the location allows dynamic supply chains."

While Menlo's current Rotterdam-based shippers reside predominantly within the high tech sector, the logistics capabilities of its personnel and suitability of the warehouse are also geared to handling life sciences, lifestyle, and e-commerce product, adds Gunn.

Indeed, with key nodes in that transport network such as Schiphol, Brussels, Aachen, and Dusseldorf all within a two hour drive (Frankfurt just four hours), the hubs of the major freight integrators are all less than an hour away from Rotterdam.

Last year was also a stellar year for the Port of Antwerp, Rotterdam's neighbor to the southwest. The Belgium port set a new record, with a total freight volume of 190.8 million tons, representing growth of 3.6 percent over the previous year.

"While the container volume contracted slightly as a result of the economic recession, this was more than made up by the excellent figures for liquid bulk, up by 31.4 percent," says Stefanie D'Herde, the port's marketing coordinator. These growth figures demonstrate that the investments by private companies in combination with the targeted efforts by the Port Authority and the various trade associations are bearing fruit, D'Herde adds.

Last year was also characterized by the continued increase in the size of container carriers, with units of 18,000 TEU entering service. Another significant development was the setting up of the P3 network, whose choice of Antwerp as a port of call not only reinforces the gateway's position in the worldwide supply chain, but also confirms Antwerp's firm place among top-ranking world ports.

"The problem-free call by the *Mary Maersk* (18,000 TEU) once more confirms the ease of access for even the largest container ships and shows that the deepening of our channel has been a success," says D'Herde. And given the frenzy of activity on the continent as of late, industry analysts say that more "problem free" events in the supply chain arena are most welcome.

Patrick Burnson is Executive Editor of Logistics Management

Invest in productivity with lift truck financing

The structure of an equipment lease can have a significant impact on operations—and there are ways to ensure the impact is a positive one.

BY **JOSH BOND**, EDITOR AT LARGE

Managers have long appreciated the lift truck's role as an essential component of a productive warehouse. In recent years, the growing adoption and capabilities of fleet optimization technology are exposing even more potential for value and savings. As visibility into an asset's total cost of ownership has improved, more operations have realized the impact fleet financing methodologies can have on productivity, operator satisfaction, costs, and efficiency.

Unfortunately, an organization's procurement and operations functions are often disconnected, working toward entirely different objectives that might not be mutually beneficial.

"In an ideal world, the operations group evaluates equipment, defines requirements and specifications, identifies needed accessories, and provides usage data to the procurement group to accurately tell that story," says Bill Buckhout, manager of Raymond Leasing for the Raymond Corp. Ideally, the procurement group then takes that data and puts it into a request for proposal that includes what the operations group needs.

"In reality, when procurement takes over, it's not necessarily a good thing, and unfortunately that's happening more and more," says Buckhout. "Those silos are not breaking down; if anything they're being more reinforced."

A disconnect between lease terms and actual use can lead to overage penalties, unnecessarily high payments or limited options for process improvement throughout the term. "You don't want to be in a position where your fleet dictates your process," Buckhout says.

Yet, as more companies explore flexible leasing arrangements that allow them to maintain a state-of-the-art fleet, the concept of "total cost of ownership" is creeping into the discussion, prompting many to bridge the gap between purchasers and lift truck operators.

Rotation, retirement, and returns

One of the primary benefits of leasing is the establishment of a replacement cycle for lift trucks at the end of their economic life. This strategy can prevent a customer from throwing good money after bad to maintain an aging piece of equipment, but it also ensures the fleet is equipped with the most up to date safety, efficiency, and ergonomic features.

These features obviously benefit operators, but Eric Gabriel, senior manager of marketing for Mitsubishi Caterpillar Forklift America, says you can find financial benefit in increased productivity. Comfortable operators experience less fatigue, fewer back problems, and more consistent performance throughout a shift.

In addition, equipment has become

more reliable in the past 10 years, driving maintenance costs downward. "Energy consumption, productivity, efficiency, and ergonomics are all critically important to reducing costs," Gabriel says. "And these factors are very measurable. We know exactly how much each has improved."

Over the last 12 years, three generations of equipment have been on the floor, says Raymond's Buckhout. A 10-year-old lift truck is a dramatically different piece of equipment from a new one, where energy savings alone could differ by 20 percent to 40 percent. "Most of the advancement has occurred in the last five years," he says. "Leasing is the tool that lets you keep up with that."

At the end of the term, more than 90 percent of lift equipment is turned in, according to Matthew LeSage, managing director of vendor finance at GE Capital, Equipment Finance. "People typically choose that option because they want to get new equipment—with all of the latest bells and whistles—that'll continue to be a workhorse day in and day out," he says. "They don't want the hassle of dealing with aging equipment that may start to have maintenance issues."

In some cases, such as Tier 4 diesel emissions standards, new equipment could better achieve regulatory compliance, according to Brian Markison, director of North American sales for UniCarriers. Also, the cost and availability of parts gets easier with newer equipment, he says. A generation or two away, that availability starts to diminish.

Determining the value of bells and whistles

It's common to see support for ergonomics, efficiency, and productivity tools on the operations side of the business, but because those tools come with a cost, some procurement groups might not value them as highly.

A thoughtfully designed lease agreement should allow for changes in fleet size, composition, and utilization throughout the term.

Jeff Bailey, director of Crown Credit Company, says both positions should take all factors into account before acquiring equipment. "What the purchasing agent sees as the ideal terms

What to include in the lease contract

We asked our experts for tips and trends that could help fleet owners find the right lease agreement while avoiding classic pitfalls.

Tina Goodwin, director of financial services for Yale Materials Handling Corp.:

• Do not commoditize leasing companies. Work with a finance partner who has a good understanding of lift truck usage and your specific application.

• Design the contract for flexibility. If the application, equipment needs, or usage change, be sure you can adjust accordingly.

• The biggest trend we see is unlimited hours for applications under 2,500 hours per year. The customers aren't sure today how many hours they will be running their equipment in the future. We might quote a five-year lease at 1,500 hours per year. The customer wants that payment, but with unlimited hours—and that's when the dealer's understanding of the application can inform what the upper end of those hours could be and take a chance.

Bill Buckhout, manager of Raymond Leasing for the Raymond Corp.:

• Warehouse reconfiguration and process improvements can be held up by rigid equipment leasing approaches. Negotiate for the "what-if." If usage increases dramatically, or the process or products change, find out if you can change or replace equipment early and at what cost.

• Allow for the option of an end-of-lease purchase in the contract, although you are not always encouraged to exercise it.

• If you bundle the lease and the maintenance, make sure you can cancel the maintenance product separately from the lease. Don't buy into something that ties you to both for the entire term of the contract. If for some reason you have an issue with a maintenance provider or if usage specs change, you want to be able to adjust the maintenance arrangement.

Jonathan Loyless, assistant finance manager for Hyundai Forklift:

• If downtime is critical, pursue the option to guarantee a technician can be on site within 12 hours to 24 hours, or a provision for replacement lift trucks.

• The end of the year is often the best time to get deals on equipment as dealers try to lower the inventory. Be careful that the options for the previous year model don't stray too far from the new model's features. If there isn't much difference, you might as well take the older, cheaper one.

Eric Gabriel, senior manager of marketing for Mitsubishi Caterpillar Forklift America:

• It's absolutely critical to conduct a thorough application and site survey. If you underestimate annual usage, you get overtime charges. If you overestimate, you're paying for nothing. The lease structure, number of units, type of equipment, and capacity all come out of the site survey.

• I would rather see a customer with a three year lease and an option to extend it two years than a customer with a five year lease. The cost is not terribly different, but the flexibility is very valuable.

Brian Markison, director of North American sales for UniCarriers:

• It's common to exclude avoidable damage and abuse, so get a firm definition. "Normal wear and tear" is open to interpretation. Perhaps you set a certain dollar amount before the maintenance contract stops covering it.

• Consider pooling usage hours across a fleet. Then you don't need to worry about rotating high- and low-usage lift trucks. If you expect 2,000 hours per year for five years, at the end some will have 8,000 and some 12,000. With pooled hours, it's a wash.

• If you have a certain amount of idle time, you might be able to skip the payments during that time. This is sort of a middle ground on the spectrum of pay-by-the-hour arrangements.

Matthew LeSage, managing director of vendor finance for GE Capital, Equipment Finance:

• If the customer is concerned about keeping cash on hand, entering into a short-term fixed renewal typically allows you to save 50 percent or more off the original lease payment.

• If you expect to use your lift truck less than the industry standard 2,000 hours, you can usually lower your lease payment and your overall cost for the equipment. Usage is usually priced in 500-hour increments so users can categorize their expected usage into 500-,1,000-, or 1,500-hour buckets.

—Josh Bond, Editor at Large

for the company might not take into account features and benefits that could ultimately make it a better choice," Bailey says. "I do see more companies starting to realize that cheaper up front is not necessarily better. Both positions are looking at total cost of ownership."

For customers unsure about the value of add-ons and features, renting equipment for an extended test drive has become a popular way to find the right truck. "I'm seeing more and more of a trial approach," says Jonathan Loyless, assistant finance manager for Hyundai Forklift. "Dealers are increasing rental fleets with the hope that they can convert rental customers to leases or purchases."

For customers unsure about the value of add-ons and features, renting equipment for an extended test drive has become a popular way to find the right truck.

According to Loyless, operations tend to use the various options that sound good and then see whether they're worth it. They collect feedback from employees and see if it's a good fit for their business. "Then, they see if they want to lease, purchase, or move on to a different lift truck."

The test drive can expose complaints as simple as the placement of pedals or gear shifters, which Loyless says can be a deal-breaker for some. He recommends a trial period of between one to three months to collect the necessary data and feedback.

He also offers a word to the wise: Be sure a lightly used machine enters a lease based on its actual current condition as opposed to what it was when new. If the test drive consumed less than 100 hours, the residual is not likely to fluctuate. But if it reaches 500 hours, it could be possible to discount the residual and secure lower payments.

Bundled leases and service contracts

About 25 years ago, Tina Goodwin says Yale Materials Handling Corp.'s captive finance company used to see about 70 percent of all equipment purchased outright, and 30 percent leased. That has changed to 80 percent leases and 20 percent full payout, says Goodwin, who is director of financial services for Yale.

Unless a lift truck will be used very little, it's often best to lease it, Goodwin says, and unless a facility has a very efficient and effective in-house maintenance department, it's often best to purchase a service package as well. These separate products can be bundled into a single, fixed monthly payment for easy billing, but she suggests the benefits of pairing them extend much further.

"If I were a customer, my preference would be to have a maintenance contract in place with an authorized dealer so I don't need to worry if I'm meeting the return terms at the end of the lease."

—Tina Goodwin, director of financial services, Yale Materials Handling Corp.

"If I were a customer, my preference would be to have a maintenance contract in place with an authorized dealer so I don't need to worry if I'm meeting the return terms at the end of the lease," says Goodwin. "If the two are bundled, the upkeep of that equipment is a shared responsibility. If customers do in-house maintenance then they're on their own."

Markison says that a fairly large number of customers remain who do their own maintenance, but those operations tend to put as much as 50 percent more parts on their equipment. "It appears on the surface you can save money doing it yourself, but that's often not the case," he says. "Those who do a very good job are few and far between."

Gabriel estimates that at least 50 percent of leases include some form of maintenance, and that number is growing. Leases are ideal for people uninterested in being in the business of fleet management, he says. The goal of the lease is to consume the majority of the economic life of the truck over the term, and then replace the unit before maintenance costs get out of hand. "When those costs become too much, the economic life is over," he says. "Therefore, leasing and maintenance go hand in hand."

In addition to capturing information on a driver's safety and performance, the use of telemetry devices can help minimize maintenance costs in a few important ways, according to LeSage. Before entering into a lease agreement, the data these devices provide can help customize the term and the payments, particularly for hourly billing associated with usage-based leases.

Perhaps most importantly, "telemetry also allows users to proactively identify service and maintenance requirements before a truck goes down," LeSage adds.

—Josh Bond is Editor at Large for Logistics Management

SPECIAL REPORT

Top 30 U.S. Ports: Digging deep

With the Panama Canal expansion planned to meet its deadline in late 2015, shippers are busy determining which top gateways will best serve their future needs. Meanwhile, even more strategic complexity has been introduced with further consolidation of ocean carrier services. Are niche ports ratcheting up their game to catch residual volume?

By Patrick Burnson, Executive Editor

Even the most dominant U.S. ports can't afford to become complacent in the face of several competitive factors converging at mid-year, say industry analysts. And while no major shift in *Logistics Management*'s Top 30 U.S. Ports list will be made evident over the course of this year, niche upstarts with NAFTA connections in Canada and Mexico may further cloud the picture in terms of rankings in the future.

"With winter over, retailers are stocking up in anticipation of a busy spring and summer," says Jonathan Gold, vice president for supply chain

Top 30 U.S. Ports
(by TEU)

	U.S. Port	2011	2012	2013
1	Los Angeles, CA	4,132,385.82	4,097,348.69	3,969,845.19
2	Long Beach, CA	3,074,810.13	2,997,877.05	3,457,689.03
3	New York/ Newark	2,733,474.42	2,771,707.11	2,789,542.07
4	Savannah, GA	1,095,879.65	1,093,976.56	1,157,680.73
5	Norfolk, VA	742,324.93	817,368.48	902,619.48
6	Oakland, CA	779,487.74	762,793.75	781,420.03
7	Tacoma, WA	485,855.74	624,867.07	724,691.20
8	Houston, TX	595,459.18	632,021.67	682,847.02
9	Charleston, SC	600,850.43	644,284.23	658,324.55
10	Seattle, WA	807,556.73	759,798.66	572,534.11
11	Miami, FL	358,882.24	361,410.17	363,719.52
12	Port Everglades, FL	294,824.94	305,726.33	336,462.68
13	Baltimore, MD	301,728.37	297,808.59	328,285.73
14	Philadelphia, PA	154,070.46	160,141.22	175,950.30
15	Wilmington, DE	140,940.29	150,704.74	163,672.17
16	San Juan, PR	156,923.25	160,176.96	163,114.76
17	Jacksonville, FL	123,943.31	133,866.51	156,867.85
18	Wilmington, NC	122,134.98	111,314.33	106,377.00
19	Boston, MA	99,465.02	93,763.39	99,220.35
20	Gulfport, MS	109,687.70	100,193.48	97,057.88
21	New Orleans, LA	88,718.29	79,746.31	85,181.99
22	Portland, OR	75,680.94	63,134.52	73,811.66
23	Mobile, AL	55,012.05	63,256.32	67,295.69
24	Chester, PA	53,608.01	52,399.78	55,058.69
25	San Diego, CA	49,057.51	49,768.98	48,444.41
26	Freeport, TX	29,929.45	35,535.55	47,901.50
27	Port Hueneme, CA	17,644.15	46,070.37	47,894.95
28	West Palm Beach, FL	28,121.60	29,542.84	34,868.26
29	Honolulu, HI	19,065.14	19,989.10	21,598.67
30	Tampa, FL	17,854.97	18,123.48	19,967.57
	All Others	106,191	96,996	87,057
	TOTAL	**18,755,511**	**19,115,337**	**19,180,848**

Source: Zepol Corp.

and customs policy at the National Retail Federation (NRF). "All the top ports are considered when contingency plans are needed, so we may be seeing more volumes spread around the regions."

According to Ben Hackett, president of the maritime consultancy Hackett Associates and an author of the monthly Port Tracker newsletter, major retailers appear to be content with the existing deployments and ports of call—even with the P3 and G6 carrier alliances taking form.

"New York and New Jersey will always be a major destination because of the population concentration, and the same is true of LA/Long Beach," says Hackett. "Oakland and Savannah are important because they represent two of the best export gateways, while Norfolk and Seattle/Tacoma are attractive because they have sufficiently deep harbors to handle the mega vessels."

Hackett notes that alliance carriers will also continue to use their respective terminals, thereby ameliorating dockside disruption. Hackett does concede, however, that drayage at heavy retail ports may be complicated in the future. "With the influx of these massive container ships, truckers will have many more boxes to move at once," he observes. "As a consequence, you can expect ports to demand more transparency in the drayage process."

While relatively minor, the Gulf ports of New Orleans and Corpus Christi play a significant role as a transshipment hub, as does the Port of Boston and Philadelphia in the East. On the West Coast, the niche Port of Portland and Vancouver U.S. remain viable for many shippers as well and may begin to slowly eat away at some of the volume of the perennial top ports, says Hackett.

Analysts suggest that Lazaro Cardenas in Mexico or Montreal up in Canada may also represent a threat to U.S. gateways, but for Nelson Cabrera, manager of business development at Lilly & Associates International, a global freight forwarder based in Miami, the emerging hubs in the Caribbean Basin are the ones to watch.

"With the Panama Canal expansion moving ahead on schedule, we see ports in the Bahamas, Dominican Republic, and Panama itself as major competitors," Cabrera says. Unburdened by many of the strict regulatory compliance procedures conducted at U.S. ports, these foreign rivals can attract beneficial cargo owners with promises of expedited throughput. This, according to Cabrera, represents exponential savings in net load and inventory costs.

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technology and harmonized tariff codes, these smaller ports can seize a political advantage by not carrying the expense of Customs and security personnel," says Cabrera. "Even ports in Columbia and Chile are realizing this advantage."

Paul Rasmussen, U.S. trade expert and CEO of Zepol, agrees, stating that Jamaica is also getting into the fray. "The Jamaican government has signed a preliminary agreement with one of China's leading construction companies for the development of a transshipment hub off its southwest coast," says Rasmussen. "This could pose a big threat to some of the smaller ports in Florida."

East Coast: Improving communication

Last summer's operational problems at The Port Authority of New York and New Jersey prompted leadership there to organize a "Port Performance Task Force" comprising a cross-section of industry representatives.


The Port of New York/Newark is No. 3 on Zepol's list of Top 30 U.S. Ports by TEU.

According to Rick Larrabee, the port authority's commerce director, computer glitches at Maher Terminals along with longshore labor shortages and construction delays needed to be addressed if the port was to remain its current status in Zepol's rankings.

"If there was a silver lining from last summer, it was the recognition that everyone in this port has to work together," says Larrabee. "We haven't had everyone in the room like this before."

Task force members include terminal operators, ocean carriers, the International Longshoremen's Association, the New York Shipping Association, the Metropolitan Marine Maintenance Contractors Association, truckers, beneficial cargo owners, railroads, intermodal equipment providers, and third-party logistics providers (3PLs). The port authority chairs the group.

According to Larrabee, issues now being discussed include chassis management, terminal gate throughput, and performance metrics. "We want to find ways to measure performance, because what you can measure, you can manage," he says.

At the Port of Virginia, the focus has been on making motor carriers more efficient and increasing overall cargo velocity. "An investment in technology and conveyance equipment, smarter allocation of manpower, and reactivating mothballed equipment, has been key to success," says John Reinhart, CEO and

Chicago remains top inland port

While the focus of this regular feature is on the Top 30 ports, it's important to note that the U.S. is served by more than 360 commercial ports, providing approximately 3,200 cargo facilities.

Within this context, Chicago remains the largest inland general cargo port in America, and the city as a whole is the commercial transportation hub of the nation. It sits in the center of the Midwest industrial base and the agricultural heart of America.

"I believe the port is a valuable asset, and with strategic investment it can drive economic growth in our city," says Chicago Mayor Rahm Emanuel. "The port moves more cargo than any other Great Lakes gateway, most frequently steel, grain, scrap metals, and stone."

The Seaway and the Great Lakes meet the Illinois and inland waterway system at Chicago. It's the beginning and the end of barge traffic between the Seaway, inland points, and the Gulf of Mexico through the Illinois, Mississippi, Missouri, Ohio, and the Arkansas Rivers. Eastern railroads terminate in Chicago, and rail lines west, north, and south start here.

Still, industry analysts maintain that more money has to be directed toward infrastructure to make the port sustainable. Last year, the Denver-based Broe Group and its transportation affiliate OmniTrax, tried to complete a privatization deal that might have achieved this goal. Although that deal failed to come to fruition, analysts say similar ventures may develop this year.

Principal national interstate highways pass through the Chicago area and radiate outward from the Midwest's major city. Trucking companies maintain central terminals and intermodal transshipping facilities in Chicago, with highway carriers fanning out in all directions from this dynamic industrial, commercial, and agricultural center.

–Patrick Burnson, Executive Editor

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Deepening the Savannah Harbor from 42 feet to 47 feet will accommodate an increase in the number of super-sized container vessels transiting the Panama Canal after its 2015 expansion.

executive director of the Virginia Port Authority.

According to Reinhart, the port is extending hours at its gates and empty yards when and where needed and setting up various express-type lanes for motor carriers that are either in operation or on their way. "We're taking concrete steps to address some immediate concerns and building this foundation for the future," he says. "Over the long-term, these moves will help us better align our volumes with revenues and improve the overall flow of cargo across our terminals."

The immediate effort is concentrated on Norfolk International Terminals, a 693-acre facility that has more than a mile of wharf space, two transfer zones, and the port's largest (on-dock) rail operation.

Last year, The Port of Virginia set a record in terms of TEU volume, but revenues did not correspond. It became apparent that an overall review of container conveyance systems and subsequent investment to address the recommended changes was needed there, Reinhart says.

Since the beginning of the year, the emphasis has been on improving the throughput of truck freight. But as Russell Held, senior vice president of business development at the port, says, "Our port's double-stack rail service provides the needed access to the nation's heartland."

For the neighboring Port of Savannah, the $35 million in additional port deepening funds proposed by Georgia Gov. Nathan Deal has been approved by the state legislature. Along with previous funding, Georgia has now allocated $266 million, fulfilling the state's portion of the Savannah Harbor Expansion Project.

Deepening the Savannah Harbor from 42 feet to 47 feet will accommodate an increase in the number of super-sized container vessels transiting the Panama Canal after its 2015 expansion. With a deeper channel, larger and more heavily laden ships can arrive and depart with greater scheduling flexibility. Furthermore, say analysts, these "Post Panamax" vessels will lower shipping costs per container slot.

Gulf of Mexico: Racing the clock

Surging demand for warehousing and rail service has created a new set of challenges for the Port of Houston, the Gulf's dominant ocean cargo gateway. Roger Guenther, deputy director of operations at the Port of Houston Authority, says that the port is examining intermodal rail in an effort to extend their reach farther inland for containerized cargo.

At the same time, there may be no more urgent deadline facing the Houston economy than dredging the Houston Ship Channel in time to handle super-size container ships that will be transiting the expanded Panama Canal in about 20 months.

"By working with the Army Corps of Engineers, we're on the verge of obtaining the necessary permits to prepare our container terminals for the larger ships that we'll see from the Panama Canal expansion—and we achieved this objective in about half the expected time," says Guenther.

According to Zepol, the port set container volume and cargo tonnage records in 2013. Container volume reached an all-time-high 2 million TEUs and cargo totaled an unprecedented 36 million tons. Furthermore, a six percent year-over-year increase in loaded container movements outpaced all other U.S. ports in that category.

Meanwhile, the neighboring Port Corpus Christi has been targeted as a key ocean entry for plant machinery and container cargo destined for South Texas as well as to important industrial conglomerates of Northern Mexico. To expand this opportunity, it has negotiated a Memorandum of Understanding with the city of Pharr, Texas, to promote the efficient intermodal land and seaport route between the Pharr International Bridge, and this vital niche port.

West Coast: Staying ahead

The ports of LA/Long Beach are still without executive directors, but analysts say that they should hardly be troubled by this development, as the massive scale of their operations will sustain them through the coming months.

Drewry forecasts a "subtle shift"

The newly created and expanded alliances of P3 and G6 will certainly review and revise port calls, but the shift in initial deployments will be subtle, says Neil Davidson, senior analyst of ports and terminals for Drewry Research.

"However, it is in the carrier's best interest to serve as many ports directly as possible in order to offer the best service to cargo owners," says Davidson.

Furthermore, Davidson says that carriers will still call on all the key ports where there's a concentration of consumers. "So in this sense there may not be much change to the list of ports called. But bigger ships do mean reduced service frequency, or at least less port calls per year, leading to more peaking of port volumes."

Davidson says that anticipation of a breakdown in dockside labor contracting on the U.S. West Coast should also be considered when discussing the state of the ports this year. "I imagine that most shippers, through past experience of similar issues, have contingency plans in place for diversions if necessary. Shippers will adopt a wait and see approach though," he says.

Finally, Davidson adds that the impact of the expanded Panama Canal still remains to be seen. "East Coast U.S. ports are hoping to gain share from the West Coast ports, but they won't give it up easily," he notes. "Plus, it's not just about port capacity, but also about inland and intermodal capacity."

In addition, there are two key unknowns about the future, says Davidson. First, the level of the new Canal vessel tolls is yet to be determined, and we have yet to see how the U.S. and Canadian railroads will react to the expanded Canal.

"Both of these will have a big influence on which way cargo is routed," says Davidson. "Most likely time sensitive cargoes will continue to move via the West Coast, but cost sensitive cargoes will be more tempted to use the Canal."

–Patrick Burnson, Executive Editor

Walter Kemmsies, Ph.D. and chief economist for engineering firm Moffat & Nichol, is among those who contend that West Coast ports are not neglecting to build for the future.

"The fact that seaports must invest in modernization and new efficiencies is actually good news for the Port of Long Beach, which is several years into a decade-long, $4 billion capital improvement program," says Kemmsies. "The port is also active where it can be in trying to find the means to improve efficiencies and productivity at its terminals."

The Port of Seattle, which is also searching for a new leader, is still holding it's own in today's overheated inbound marketplace. Peter McGraw, spokesman for the Seattle's Seaport and Real Estate division, says that a joint marketing plan with Port of Tacoma is "just a concept," but one worth exploring.

"We see the entire Puget Sound coming together in future years to address some of our common challenges and to meet our common goals," says McGraw. "It's an exciting time to be in the port business."

Industry analysts say that market share is safe at all major load centers here, including the Port of Oakland as well as at the burgeoning Port of Portland. However, all are vulnerable to a major disruption if progress is not made with the International Longshore and Warehouse Union (ILWU) contract negotiations in June.

"There's too much at stake for these talks to fail," says Kemmsies. "Both sides should understand what it means to work together at this critical juncture in maritime history."

Patrick Burnson is Executive Editor of Logistics Management


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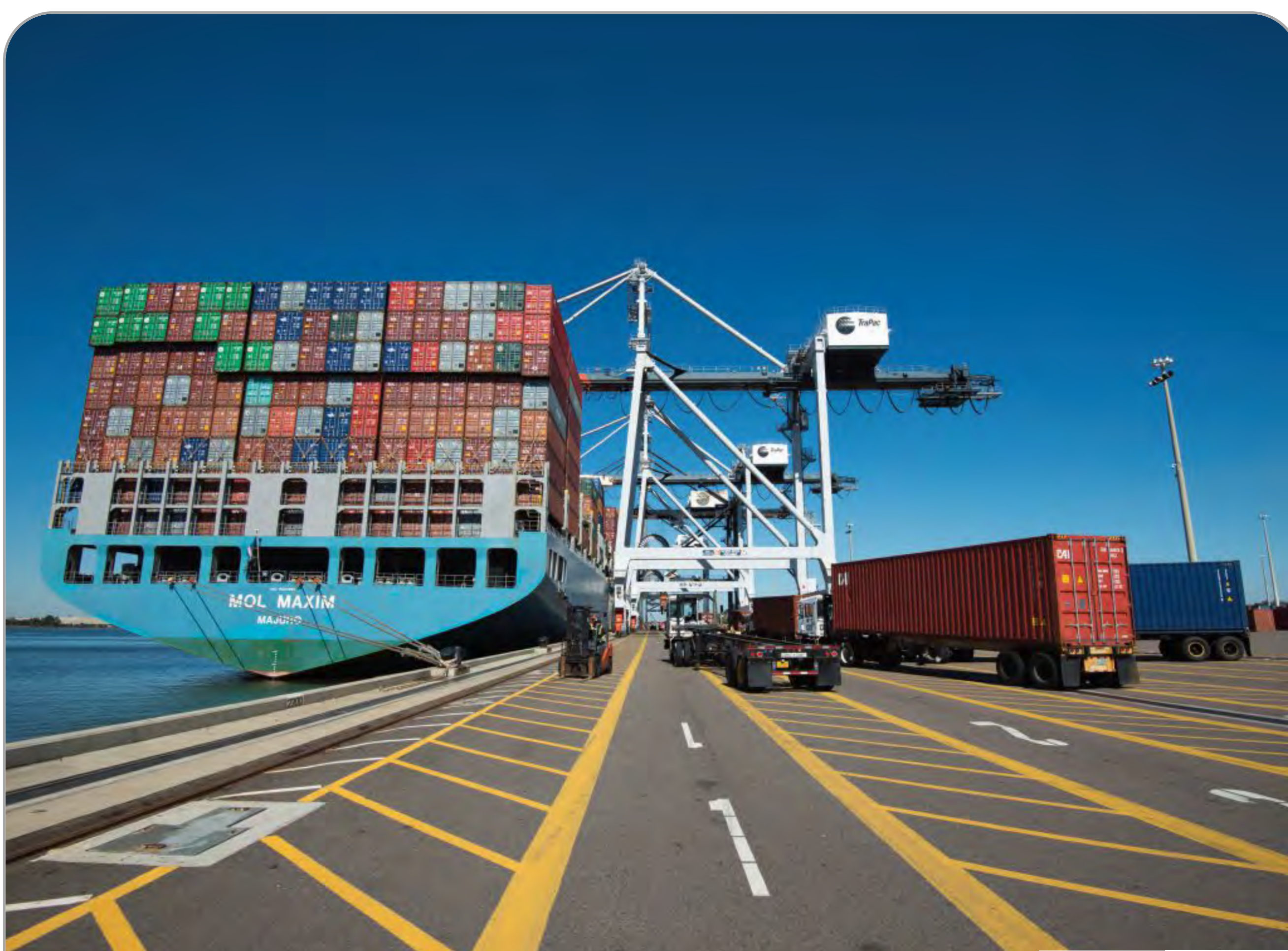
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Pacific Rim Report

By Patrick Burnson

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

Shippers, strikes, and the supernatural

IN THE BYGONE, late-night television era, Johnny Carson had a memorable fortune teller routine. As "Carnack the Magnificent," this classic comedic genius would predict the answers to questions that were concealed inside an envelope.

In the shipping industry, we have our own "Carnack" in Peter Friedmann, the affable and capable leader of the Agriculture Transportation Coalition (AgTC). He won't be donning a turban for his prognostications at the annual meeting next month in San Francisco, but a certain amount of levity may be needed when addressing the issues that keep shippers up past their bedtime.

Friedmann has already told his constituents that new contract talks between the International Longshore and Warehouse Union (ILWU) and the Pacific Maritime Association will be stalled beyond the June 30 deadline, thereby requiring an extension.

"We can learn from the recent past," says Friedmann. "Over the past 12 months, all container terminals on the West Coast have been shutdown by ILWU for varying lengths of time, from a few hours in Tacoma to five days in LA/Long Beach—and this was without any contract expiration in sight."

Friedmann adds that the ILWU locals—to varying degrees—have demonstrated their eagerness to stage wildcat strikes. "So, we should not be surprised to see disruption and slow downs at all the U.S. West Coast marine terminals," he says.

As shippers continue to listen to Friedmann, they'll also learn more about the projected impact of the P3 Alliance, comprising Maersk, MSC, and CMA-CGM. This consortium—recently sanctioned by The Federal Maritime Commission—will control nearly 40 percent of transpacific cargo.

According to Friedmann, the cultural dissonance among the carriers may further complicate matters as "schedule discipline" is not part of every container line's makeup. He points out that the three carriers currently each maintain their own sales, documentation, and customer service networks.

"But it's logical to ask whether some of these services will be combined once the operations consolidation is fully implemented," says Friedmann. "We do expect that there will be fewer, but larger ships, resulting in reduced frequency of port calls—although with the same or even greater total vessel and equipment capacity. We're going to be monitoring this closely."

Meanwhile, six ocean carriers are forming the G6 alliance, a move that has raised fewer concerns due to the fact that the participating lines are already vessel sharing in the transpacific—and it's happening without any detrimental impact to shipper interest.

Vessel operators will be paying close attention at the AgTC meeting too, as it features the results of the annual *Ocean Carrier Performance Survey*. In the report, Ag shippers measure companies in eleven categories of service and then offer insight that constructs the coveted "best vessel schedules and transit days" ranking.

Conrad maintains that TSA carriers will eventually have to stop pricing based solely on supply and demand and pay more attention to long-term service reliability and flexibility.

Finally, a highly anticipated presentation on ocean cargo rates will be provided by Brian Conrad, executive administrator of the Transpacific Stabilization Agreement (TSA). Conrad has compared the recent imposition of general rate increases in the trade lane to decisions by governments worldwide to defer needed infrastructure investment.

"We're in effect negotiating the annual operating budget for a major piece of global transportation infrastructure that happens to be privately financed," Conrad argues. "Competitive pressures to match the lowest short-term rate levels and lock them into 12 month service contracts across the board amounts to a significant deferred investment in the trade."

Conrad maintains that TSA carriers will eventually have to stop pricing based solely on supply and demand and pay more attention to long-term service reliability and flexibility. If this fails to develop, Conrad's own crystal ball shows more "acute" problems surfacing—and at significant cost to all shippers. ☐


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