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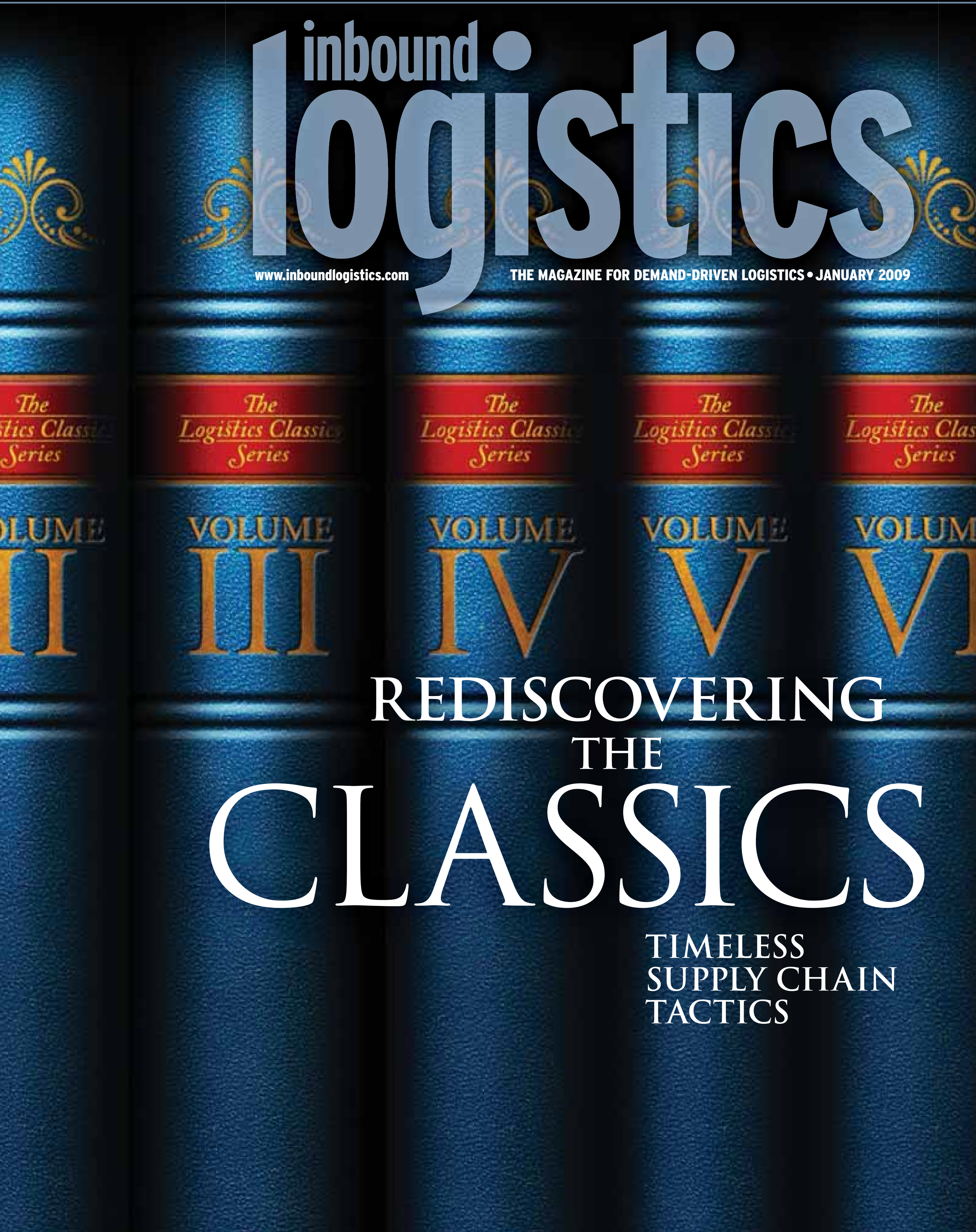

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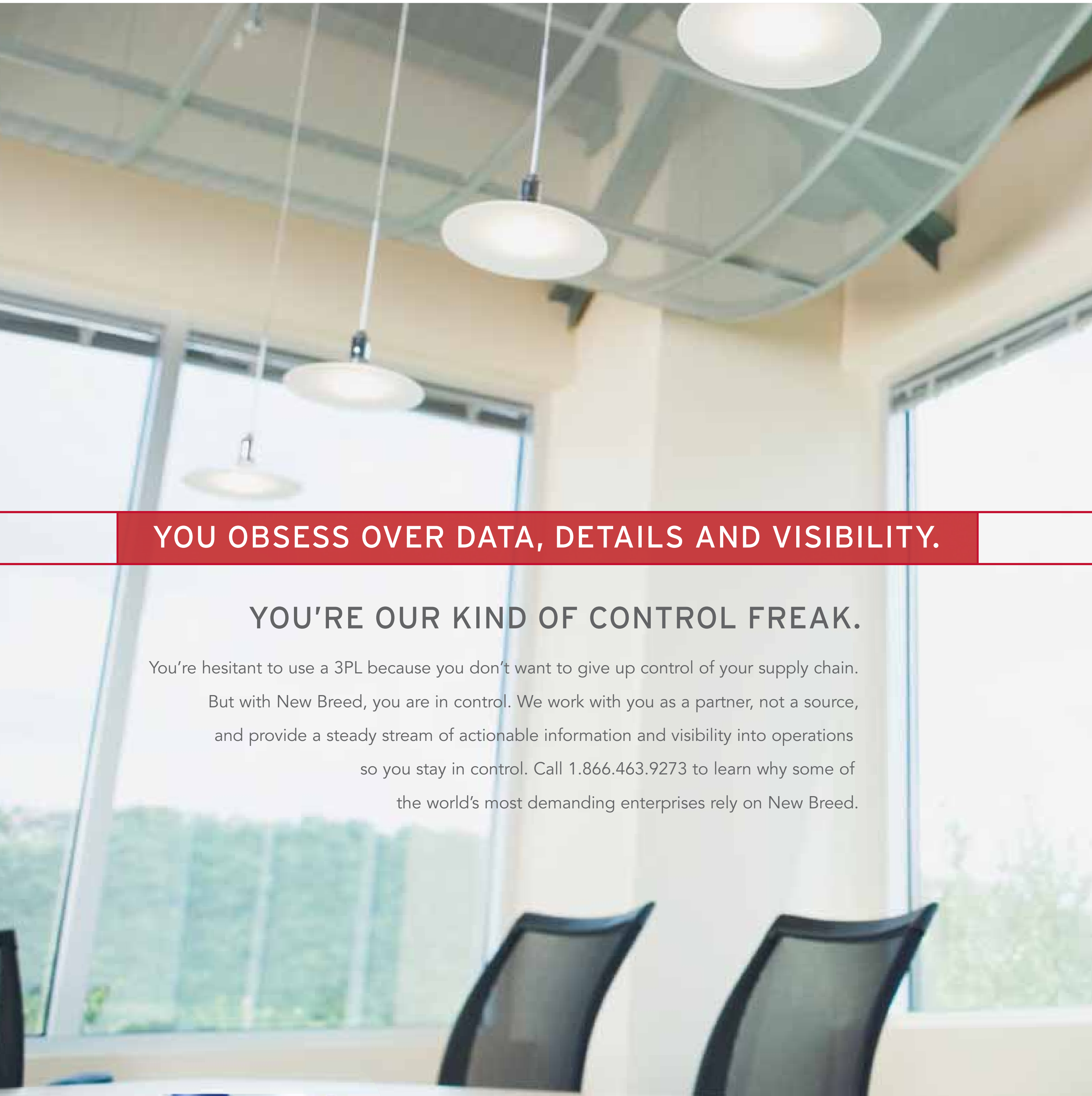

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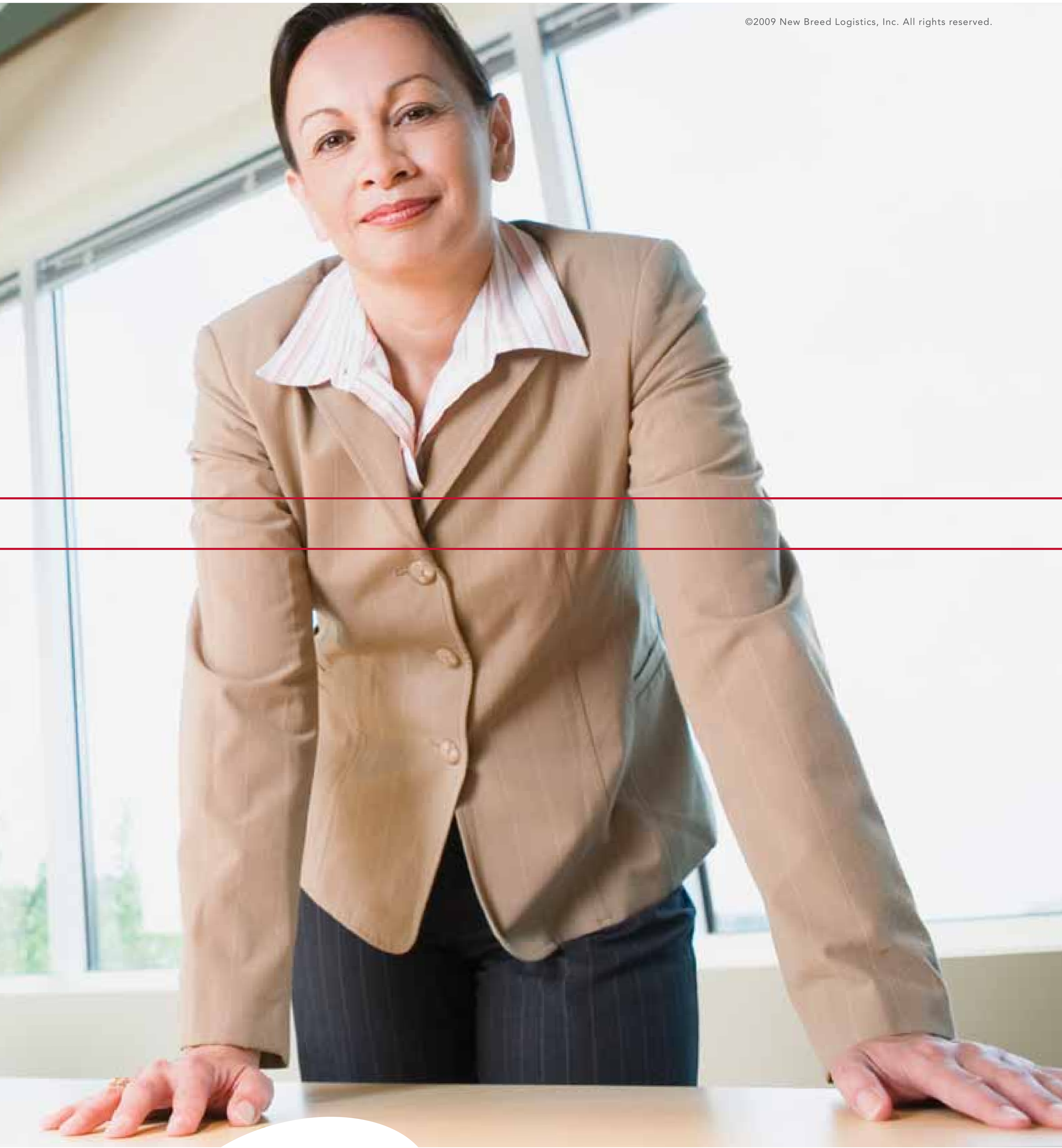

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January 2009 • Vol. 29 • No. 1

INSIGHT

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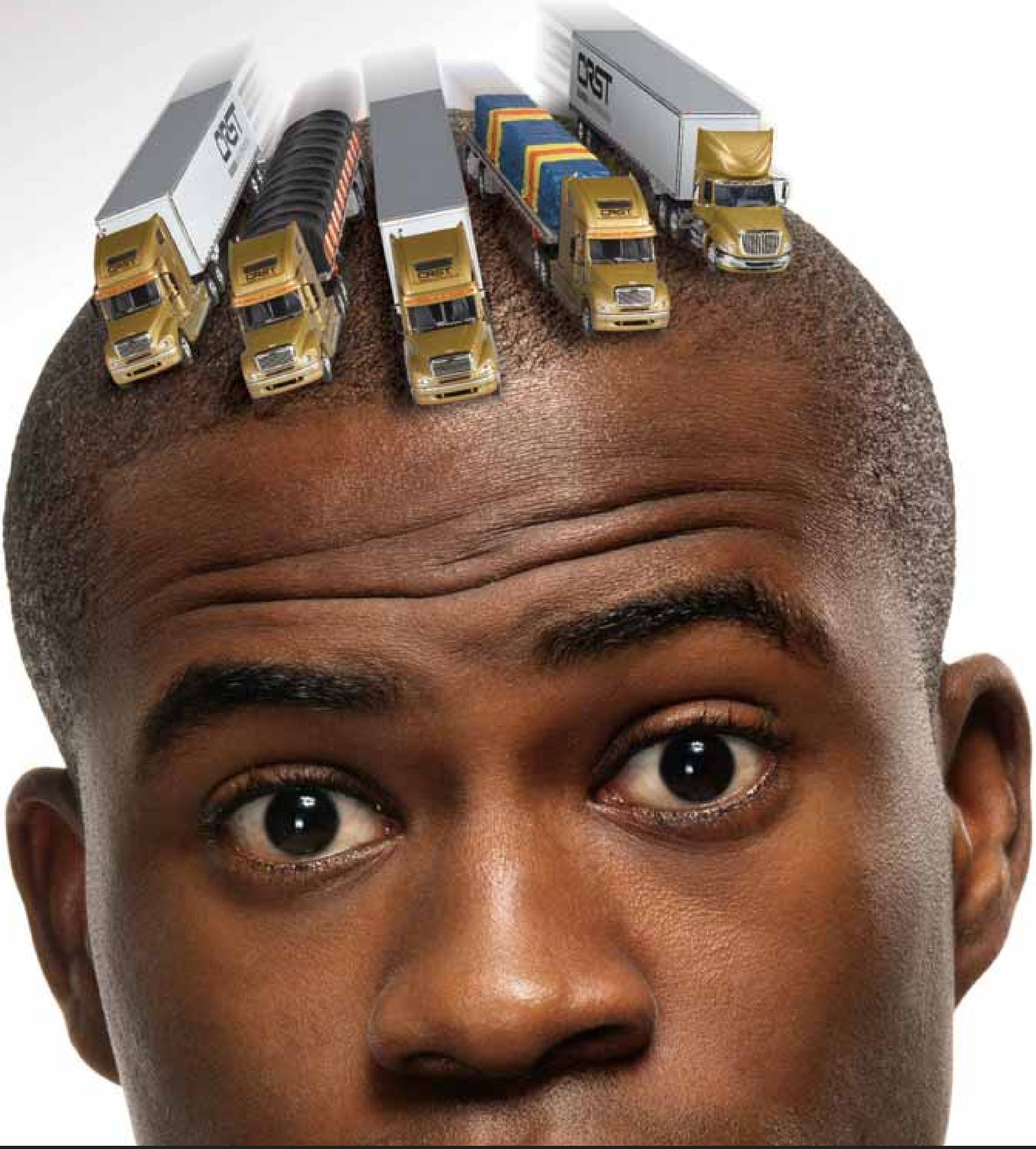

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INBRIEF

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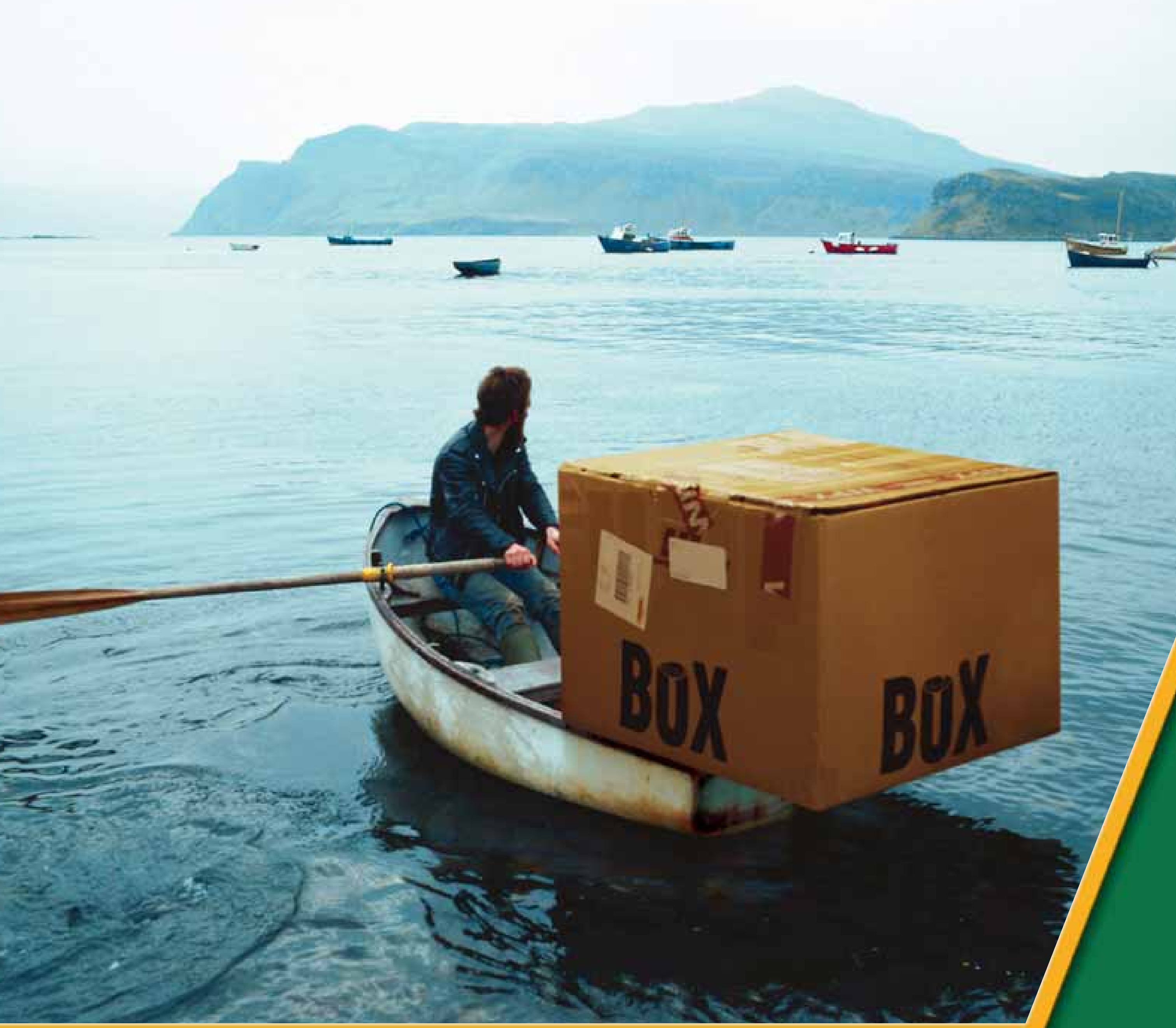

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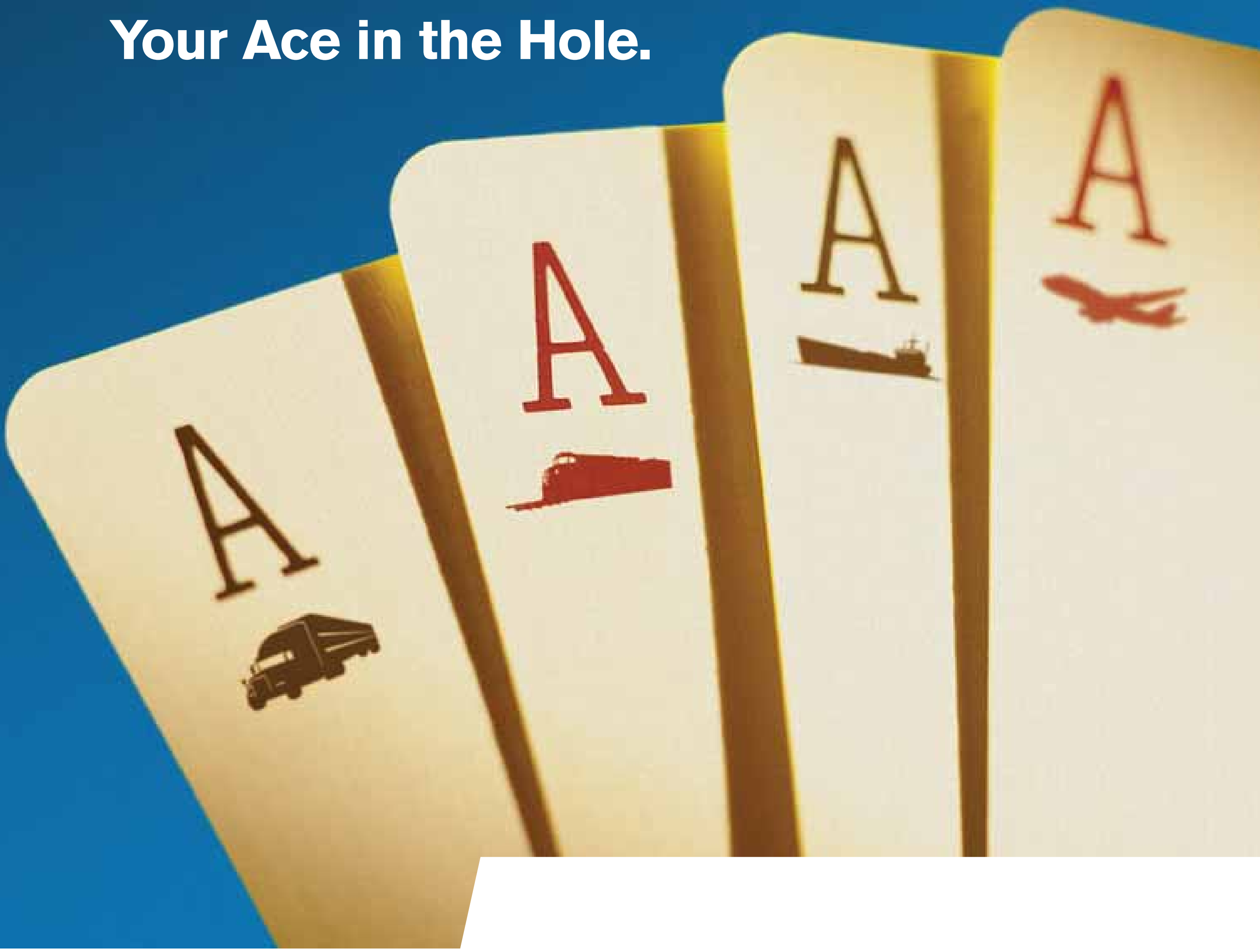

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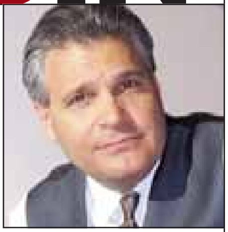

Keith Biondo

by Keith Biondo | **Publisher**

Success' Measure?

Success has many fathers, failure is an orphan, as the saying goes. Economic news in many quarters is grim. The economy is in tatters, failure abounds. Who is at fault? Everyone *else* it seems. Those still standing look over their shoulders to see if the economic Grim Reaper lurks behind them. How then do we measure success in times like these? You can take small solace in the fact that your logistics skills are ever more important. When sales fall off and resources for excellence are scarce, your logistics skills shine even more brightly.

Supply chain and logistics practitioners solve seemingly insurmountable transportation problems daily by doing two things–they work the basics and they adopt failure, or at least the responsibility for it.

Let's tackle the second one first. Failure is a part of everyday life when managing a logistics network. Many variables are absolutely out of your control, some occur too fast, and a few are so extraordinary that they cannot be imagined, much less have contingency plans in situ to deal with them. Readers of this magazine certainly are the parents of logistics success, but failure is no orphan to them because of the difficulty of what they strive to achieve–aligning demand to supply. When breakdowns occur, it is their fault because it is their responsibility to keep product flowing. Tough, practical, responsible; that's success' measure of a logistics or supply chain professional these days.

Working the basics might mean stepping back to a simpler way of doing things. Is that failure? I say it is a new measure of success. Toyota and Honda Motors recently announced a shift away from their just-in-time (JIT) manufacturing systems to a more back-to-basics approach that involves accumulating inventories. Is Toyota adopting a failure of lean? Is JIT another victim of the economic Grim Reaper? No.

With auto sales at all-time lows, and shared components and parts suppliers facing possible bankruptcy, Toyota and Honda are preparing for stock outages by accumulating inventory. Getting back to basics, for now. When things get better, they will get lean and mean again. So while some observers might view stepping back from the decades-long investment in lean as failure, getting back to basics is, in fact, a remeasurement of success.

This practical back-to-basics approach not only makes the larger logistics challenge more soluble, but gives us the hope and optimism that provides the mental fortitude to keep going and to get the job done.

Speaking of mental fortitude, the stoic Seneca said, "*ignis aurum probat, miseria fortes viros*–just as fire tempers gold, privation strengthens man." Leveraging inevitable supply chain failures can make your skill set much more valuable to your enterprise in times like these, but overcoming these extra hurdles will strengthen them even more.

That is one measure of success. ■

inbound logistics

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CHECKINGIN

Felecia Stratton

by Felecia Stratton | **Editor**

Measure for Measure

You don't have to dissect Shakespeare to understand that what you put into something you redeem in equal measures–and often more. But in these Dickensian times, businesses are tasked with squeezing out costs *and* cinching their purse strings. Putting together this year's *Logistics Planner* issue, we took William's advice – investing more time, more resources, and more research to craft nearly 500 pages of information with one singular intention–to help you get more done with less this year. Even Charles would be proud.

The idea of getting back to basics and paying attention to detail threads its way through this issue. This year's cover story, *Rediscovering the Classics (p. 60)*, harkens back to the tried-and-true, with an instructive interlude into transportation and logistics fundamentals. Toning down pie in the sky strategy and techno-rhetoric, we give credence to the "gruel and grog" elements that nourish innovation. Complexity is borne of simplicity, so acing these basics can help businesses make sense of the convoluted.

If there is one industry that personifies the gritty determination and resolve of grassroots logistics, it's motor freight. To give a pulse and feel for the twists and turns 2009 will bring shippers and carriers alike, *Inbound Logistics* invited seven leading trucking executives to share their insight and opinion in *Ask the Big Wheels (p. 123).*

Sourcing LTL and TL shipments is at the core of transportation departments. In *On the Move (p. 160)*, John Edwards takes a peak behind closed doors and explores a day in the life of three transportation managers who stick to the basics to stoke greater efficiencies and economies in their respective enterprises.

Transportation managers can appreciate the planning and diligence necessary to bring food to the table. As a dessert to our main editorial entrées, *How'd That Get On My Plate? (p. 150)* cultivates the implicit challenges shippers face when transporting seasonal harvests to seasoned demand.

As always, the anchor of this issue is the *Logistics Planner Profiles* directory *(p.327)*, an in-depth index of leading logistics players. These market leaders know a thing or two about transportation and logistics fundamentals. Bookmark and revisit these need-to-see profiles, and reach out to the companies featured as you work your way through the year.

Readers tell us the *Logistics Planner* issue isn't a "scan and can" read. So share it with your peers, distribute it among your staff and supply chain partners, download it from our Web site. Spread the word, and use the *Logistics Planner* to build a measure of success in 2009.

Finally, a heartfelt thank you to the *IL* staff, who worked tirelessly and passionately to produce this issue: Michael Murphy, Mary Brennan, Shawn Kelloway, Joseph O'Reilly, Catherine Harden, and Sonia Casiano all bring an extra measure of talent and devotion to their craft. ■

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DIALOG

LETTERS TO THE EDITO

Customer Dis-Service

In reference to your December 2008 article, *Customer Service Gets Personal*, hard times evidently bring out difficult-to-swallow examples of how businesses view customer service.

I recently saw a news item about Mervyns, a bankrupt U.S. department store chain, which hatched a plan to make money by charging "customers" for customer service. Actually, the department store's venture capital ownership is responsible for this outrageous act.

While the company liquidates most of its assets, its credit card collections department is working overtime. Customers can mail a check or pay online for free. Alternatively, they can call the company by telephone and settle accounts in one of two ways: hold for an automated voice and pay nothing, or hold for a live customer service representative and pay $15!

How's that for the human touch?

Jack Patton, Ontario, Canada

Not-so-fast Forwarding

I've spent the last 15 years of my career working on the "shipper" side of the business. What I have witnessed is a forwarding industry that simply does not understand what it must do to evolve.

To be sure, consultants, MBAs, and academia craft new terms to describe what they are and what they do, but to freight forwarders terms such as "logistics" and "3PLs" are largely synonymous with what they understand as "shipping" or "transportation."

The downside of this interpretation is that industry leaders either fail to understand what their customers expect of them as business evolves; or they fail to embrace calculated risks that could provide quantum leaps in driving the industry forward and meeting customer needs.

This failure perpetuates a downward spiral that has rendered the freight forwarding industry into a low-yield, high-volume business that does not attract brilliant young college graduates destined to be leaders of the future elsewhere in industry.

Like any behavioral addiction, the first step is acknowledging there is a problem. But unless such acknowledgement is followed by commitment and action, cynicism and futility set in, only accelerating the downward spiral.

I am convinced this is the crux of the problem in the forwarding industry. Players that see this problem, acknowledge it, and take action will be the leaders that bring change for the betterment of the industry.

As an agrarian species, we know that first the seed must be planted before a crop can be harvested. The forwarding industry has too long insisted that it should be the other way around. Twenty-five years ago, the seed was indeed the profit. But today, savvy buyers are willing to spend only if value can be perceived.

If old school management is ill-equipped to grasp forwarding concepts, too afraid to embrace the future, and unwilling to rock the boat, ideas will go unrecognized and the forwarding industry will continue to be a lagging indicator in the supply chain.

Phil Viens, Westminster, Colo.

A Sawbuck's Worth

I recently read Robert Malone's article, *Hamilton on Wry* (March 2008), and had to chuckle to myself. I, like most Americans, do not always remember

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CONTINUED FROM PAGE 12

my history and thought your comments were quite interesting and amusing. I especially enjoyed the last comments about the new tailor.

Sue Nunes, traffic administrator,
Princess House

Alexander Hamilton Responds: Sue, salutations. Robert Malone passed along your thoughtful comments. I'm happy to have obliged your fancy. Contrary to what my peers have long held to be truth, there never has been a time in our nation's history when Wisdom was more pertinent than it is now. Among the most formidable of obstacles our new constituents now face is finding economic equilibrium. This United States of America needs a balance of Commerce, Manufacturing, and Agriculture – and that precludes compensating tobacco farmers for not planting tobacco. The absurdity!

A wise man, ahem, once wrote: "Even things in themselves not positively advantageous, sometimes become so, by their tendency to provoke exertion. Every new scene which is opened to the busy nature of man to rouse and exert itself, is the addition of a new energy to the general stock of effort."

Surely, present idleness and want for leadership would have even Jefferson rolling in his grave – if he ever allowed himself the distinct pleasure.

As for tailors, Jefferson never allowed himself that pleasure either. Huzzah!

Publius

Who's Your Great Granddaddy?

Long-time *Inbound Logistics* sales rep Peter Muller recently celebrated the birth of his granddaughter, Madison Grace McLean (*below, left*). If her name sounds familiar, it should. Her father is Peter's son-in-law Malcom McLean III, (*middle photo, left*) and she is the great granddaughter of **Malcom McLean** (*right*), the father of containerization.

Warehouse Liability Redacted

I am an attorney and I represent warehouse operators, carriers, brokers, freight forwarders, and other entities involved in transportation and logistics and their insurers.

One of my warehouse clients sent me your November *Risks & Rewards* article, *Signed, Sealed, Delivered… But to Whom?* written by Dan Negron. I disagree with your analysis for two main reasons.

First, most public warehouse operators do not issue negotiable warehouse receipts. In fact, less than 10 percent of all warehouse receipts that are issued are negotiable. For the most part, the only warehouse operators that issue negotiable receipts are those that store traded commodities such as pork bellies, soybeans, etc. All other warehouse receipts that are issued are non-negotiable and do not have to be surrendered to obtain the release of the stored goods.

Second and more importantly, when a warehouse operator releases goods to the wrong party, it is a misdelivery and the misdelivered goods are lost within the meaning of the coverage afforded by warehouse legal liability policies. I have represented warehouse operators and their insurers on several misdelivery claims that were insured under warehouse legal liability policies.

Typically when this type of issue arises, an imposter truck shows up to pick up a load and an hour after the warehouse releases the shipment, the real trucker arrives.

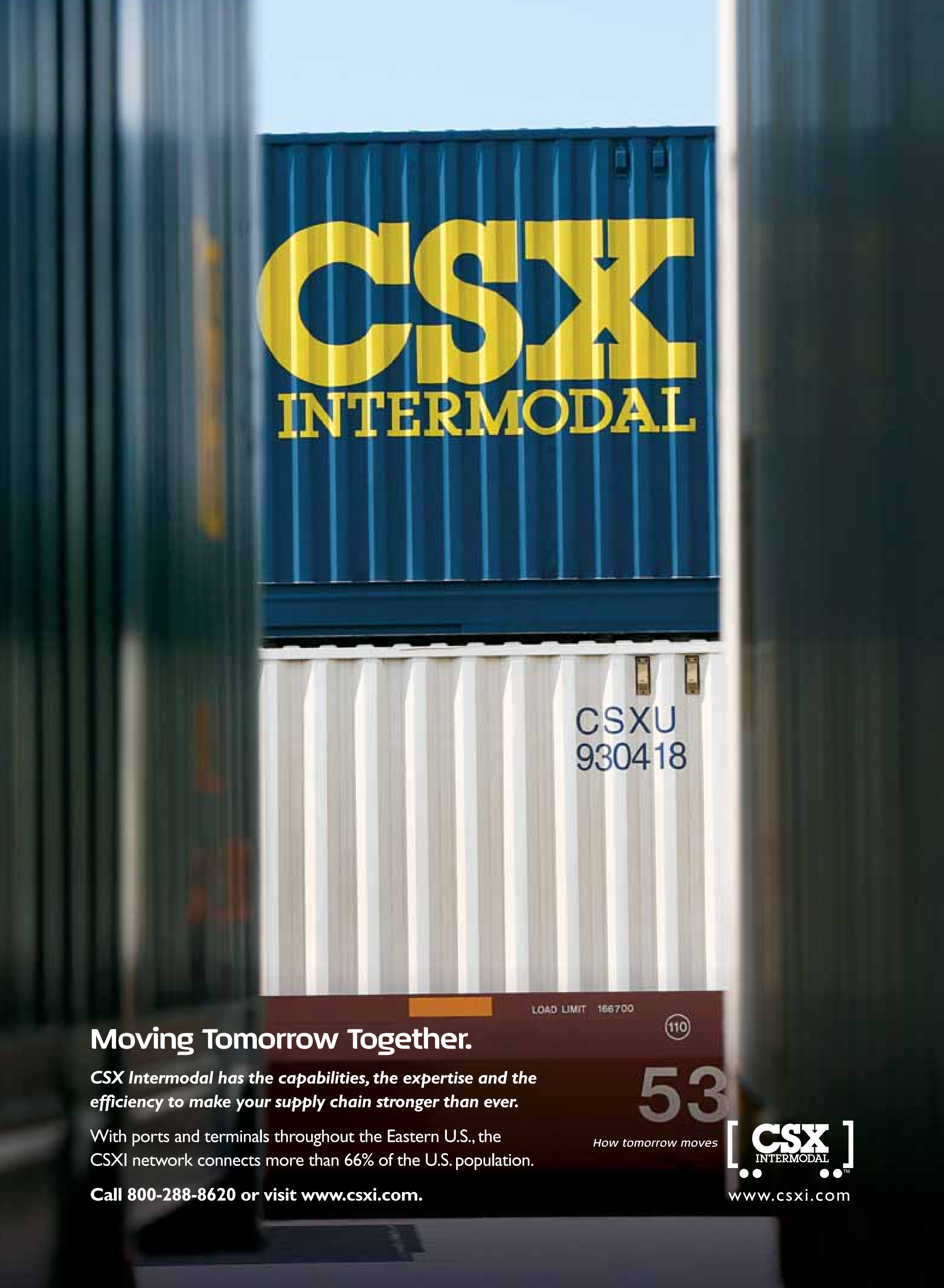
A 2001 federal district court case entitled *AB Recur Allies v. Nordstern Insurance Company of North America* is exactly on point, finding that a mistaken delivery is a loss under a warehouse legal liability policy that provided coverage for loss, damage, or destruction of stored property.

Many warehouse legal liability policies exclude coverage for loss caused by voluntary parting with possession even when induced by fraudulent scheme, trick, or device. Absent that type of exclusion, however, misdelivery claims are covered under these policies.

John F. Horvath, Horvath & Weaver, P.C.,
Chicago, Ill.

Dan Negron Responds: Thank you for your letter and comments regarding my November *Risks & Rewards* column. In this column, I try to address a variety of topics that may be germane to a diverse group of operators in the logistics industry. At times, the topics speak to a larger audience, and at other times to a very small number of readers. In either case, the idea is to raise some potential liability issues and to consider their insurance implications.

I very much appreciate your comment regarding the coverage afforded under warehouse legal liability policies. In this respect, rather than discussing whether or not a typical policy would have covered a loss in the question posed, the column should merely have pointed out that the underwriter in that particular case was not disposed to insuring the risk.



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10TIPS

STEP-BY-STEP SOLUTIONS

by Deborah Catalano Ruriani

Improving Sustainability in Your Supply Chain

Sustainability and efficiency are clearly linked in the global supply chain. Companies that want to improve sustainability must become hyper-efficient to reduce fuel consumption and emissions. Mike Kelly, chief sustainability officer at YRC Worldwide, offers advice on improving sustainability within your supply chain.

1 **Become a sustainability champion.** Look at the current economic conditions not as a problem but as an opportunity for your organization. Stay focused on your long-term sustainability goals and realize that, with some creative maneuvering, you can turn an economic headwind into a sustainability tailwind for your efficiency initiatives.

2 **Make sustainability a qualifying factor for selecting transportation service providers.** You already consider service, reputation, cost, security, and safety when choosing carriers. Add sustainability to the list.

3 **Add sustainability to the achievements your organization values.** Corporations recognize employees, vendors, and customers for service and safety achievements. Also recognize individuals or teams who improve sustainability within your supply chain.

4 **Choose a SmartWay carrier.** SmartWay, a voluntary collaboration between various transportation industry sectors and the Environmental Protection Agency (EPA), has reduced carbon dioxide emissions by six million tons since 2004. Shippers are a key link in the program.

5 **Engage your elected officials.** Help elected officials understand that the supply chain can be an important part of green economic stimulus investment initiatives. As a new Congress and president come into session, communicate with them. Make sure they know that sustainability investments in the supply chain make sense for the environment and our economy.

6 **Start benchmarking.** If it matters, it's measured. Once you find the data you need to establish sustainability ratios and benchmarks, you can put that information to analytical work.

7 **Get to know an environmentalist.** Environmental advocacy groups and non-government organizations were active in sustainability long before the movement swept corporate America. These and other external stakeholders play a pivotal role in global supply chain sustainability and can give supply chain issues credibility in the international arena.

8 **Create an internal sustainability task force.** Assemble business unit owners in your organization who have a passion for sustainability in their areas, and you will emerge with a dedicated team.

9 **Engage your trade association.** Sustainability lends itself well to the sharing of best practices, which is particularly valuable when taking public policy considerations into account. Public officials take regulatory action at an industry, not company, level when crafting policy. Trade associations can provide an ideal venue for sharing sustainability best practices, then communicating the positive actions to regulators.

10 **Get a "green" education.** As a supply chain discipline, sustainability is still fairly new. A variety of resources are available to help you learn, however. Many universities offer sustainability programs, and some industry groups conduct entire conferences on the topic. Add some books to your reading list, such as *The Triple Bottom Line* by Andy Savitz, which explores sustainability within the context of corporate social responsibility. ■

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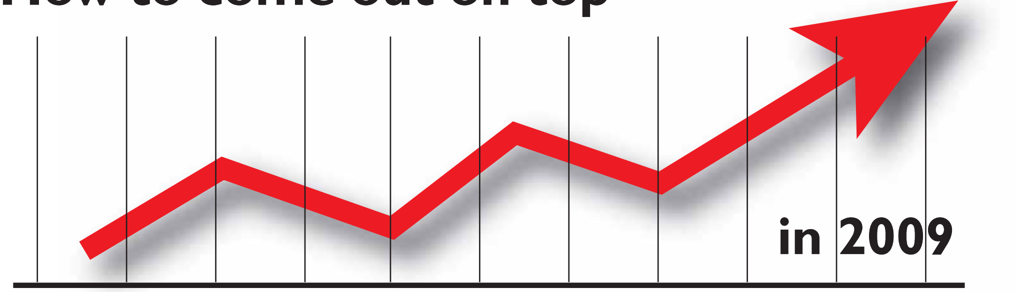
Read customer quotes in our profile in this issue — and visit our website to read more about problems we can help you solve.

How to come out on top



We asked supply chain pros throughout our network to identify challenges many companies are likely to face in 2009.
Here is their list of
Five Most Probable Problems:

1. Doing the same or more with less

Many companies will be responding to or preparing for economic pressures with downsizing and cutbacks. You are likely to find yourself with fewer people and fewer resources; in fact the only aspects likely not to be reduced are the demands on your time and the expectations for you to perform. Outsourcing with the right partner will become more essential.

2. Simplifying or consolidating your supply chain network

Efficiency and effectiveness will be key to survival and success in 2009, and experts agree that the supply chain is at the heart of efforts to improve productivity and profitability. It will be equally important not to sacrifice the quality of service you'll need to stay competitive. Expertise will be needed to design, evaluate and choose solutions.

3. Eliminating unnecessary costs

One of the smartest decisions many companies are making is to eliminate the need for co-packers by having value-added services completed on-site at the Logistics Center. This eliminates costs associated with transportation and potential damage when shipping to an outside location. Keeping products on-site for such steps as packaging, display building, and other value-added services also improves inventory availability and reduces costs by utilizing postponement.

4. Keeping up with unpredictable change

Economic pressures may result in new customer requirements and the need for more creative inventory strategies. Adaptability will be critical as will flexible, creative thinking in all aspects of the supply chain, including transportation to factor in variable fuel costs and other circumstances.

5. Seizing opportunities in a constricted economy

In spite of financial fluctuations, some companies will still be in a position to execute growth strategies, and the supply chain must be able to integrate new products, new processes, new locations and new markets.

The Bottom Line:

No one says 2009 will be easy. But through difficult and unpredictable times, good companies can still get better.

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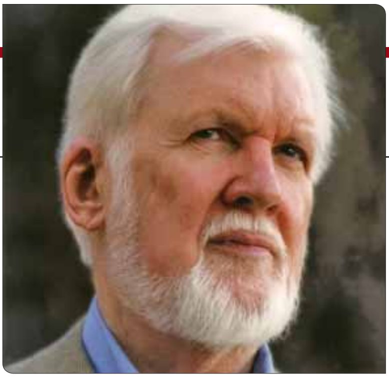

SCPERSPECTIVES

BY ROBERT A. MALONE
Contributing Editor, Inbound Logistics
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Who Will Strike the New Golden Spike?

The time is nigh when the United States must take a deeper look at its infrastructure shortfalls. There is an outstanding need for more style and substance, and less glitz and glam. Intermodal infrastructure tops the list of transportation priorities.

When U.S. railroads first managed to connect from East to West, crews drove a golden spike to commemorate the completion of our first transcontinental railway. It happened at Promontory Summit, Utah, in 1869, soon after the Civil War ended. The iconic photograph of Union Pacific's No. 119 and Central Pacific's *Jupiter* No. 60 meeting face to face immortalized that final strike. Less than 50 years later, with the introduction of the Ford automobile, the U.S. railroad was already past its prime.

As a new administration takes over in 2009, the time appears right to face the nation's growing transportation infrastructure needs and to recall the grandeur of 1869. As we all know, repairing and expanding our transportation system could amount to trillions of dollars in investment. The American Society of Civil Engineers (ASCE) reported that the nation must spend $1.6 trillion in the next five years – and that was four years ago.

Of course, it would be possible to spend all that money and not improve the efficiency of business transport. More Alaskan "bridges to nowhere" could do as much. Importantly, the money has to be targeted at areas in greatest need and that yield the greatest dividends in terms of improved logistics and supply chain efficiency. In this regard, it is hard to come up with anything more important than fixing and developing our intermodal transportation system.

INTER-STATING THE OBVIOUS

Gil Carmichael, the founding chairman of the board of the Intermodal Transportation Institute and former Federal Railway Administrator, has been a strong proponent for rebuilding our transportation system.

He offers another golden opportunity: "Today, a double-stack container train can replace 280 trucks, run at speeds up to 90 miles an hour, and afford as much as nine times the fuel efficiency of container transport by highway," he says.

Rather than extending the 1960s Eisenhower Interstate system, Carmichael suggests we create what he terms "Interstate II." This would consist of a 30,000-mile, rail-based set of conduits connected by an intelligent transportation network.

Intermodal systems are logical. If we think of the shipping container or the semi-trailer as the transport module of choice, then it makes infinite sense to transfer modules from one mode to another as easily and economically as possible. We have the modules. They are standardized, and in many cases capable of stacking and tracking.

We also know how to set up intermodal facilities, as they already exist and their value has been proven. Many issues must be addressed, however, to connect these parts. This will not be easy.

Today, there is existing and strong competition between transportation modes such as rail, air, sea, and road. These competing forces extend into a broad set of transportation support, management, and control, and often devolve into lobbying battles between steel and concrete, between types of fuel, and between pressure groups representing these factions.

Carriers in each mode also compete for what goes where, when, and for how long, with endless government intervention and regulation

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that is both useful and unproductive. Moreover, there is a significant lack of funding from both public and private sectors, and competition for control over how we distribute existing resources.

WATERS UNDER TROUBLED BRIDGES

Our intermodal transportation infrastructure needs are huge and complex, and require us to connect many interdependent parts beyond rail and road, including canals, culverts, and bridges.

Consider our bridges. The I-35W Mississippi River bridge, now repaired, is only the beginning of the challenge that awaits us. The ASCE reports that 27 percent, or 160,570 of the nearly 600,000 spans in the United States, are structurally deficient or obsolete. This means that all states, if not all counties, in America have bridges at risk to fail.

What needs to be done to address these obstacles? What steps does the ASCE recommend? First and foremost, Congress needs to enact the National Infrastructure Improvement Act, which sets in motion the creation of The National Commission of Infrastructure of the United States.

This commission would study and assess the country's infrastructure condition and prepare a set of recommendations for Congress to act on. This would require and commit a great deal of money to the cause.

U.S. bridges alone will cost $9.4 billion over 20 years to repair structural deficiencies, according to the ASCE. It already has a full action plan available for those that are able to think and move ahead.

A DRAIN ON FUNDS

But Congress has a poor track record in this regard. It failed to reauthorize the Transportation Equity Act of the 21st Century (TEA-21), which was introduced in 1998. Funds set aside by government for infrastructure improvements have been drained for other purposes in recent years. Instead, state and local authorities have had to draw on their own resources to finance infrastructure projects.

An opportunity to improve our intermodal system is well within reach. And well, it's about time. What a great chance for another golden spike, 140 years after the fact. ■


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READER

PROFILE

Jennifer Hughey Cleans Up

Jennifer Hughey wasn't looking for a career in logistics. But somehow, it sucked her in.

In 2003, Hughey was senior finance manager at Whirlpool Corp. when her former boss, Dan Clifford, recruited her to join him at The Eureka Company. Clifford, president of Eureka, now called Electrolux Home Care Products North America, wanted Hughey to develop a strategy to boost the firm's bottom line.

First as a consultant, then as an executive, Hughey concentrated on aftermarket sales and consumer services. Next, Clifford asked her to take on logistics as well. Hughey didn't have a supply chain and logistics background, but she had just earned an MBA, and Clifford felt she possessed the right skills. Nine months later, the company named her vice president, supply chain. In this role, she oversees demand and supply planning, manages inbound transportation, runs the distribution center (DC), and supervises product flow to retail chains.

A unit of Sweden's AB Electrolux, Electrolux Home Care Products North America, based in Peoria, Ill., sells floor cleaners under the names Eureka, Electrolux, Sanitaire, and Beam. Hughey

THE REAL DIRT

NAME: **Jennifer Hughey**

TITLE: Vice president, supply chain, since 2004

COMPANY: Electrolux Home Care Products North America

PREVIOUS EXPERIENCE: Corporate accountant, Quaker Oats Company; controller, Rocky Mountain Water Company; controller, Illinova Energy Partners; senior finance manager, Whirlpool Corp.; consultant, later vice president, logistics, consumer services and aftermarket sales, Electrolux Home Care Products North America.

EDUCATION: BS, accounting, University of Illinois, Urbana-Champaign, 1993; executive MBA, University of Notre Dame, 2003.

The Big Questions

What do you do when you're not at work?
I spend time with family and friends. I love to go out to dinner, snowboard, golf, and visit my home in the mountains. I also volunteer for the American Foundation for Suicide Prevention, and sit on the board of its Illinois chapter.

Ideal dinner companion?
I would love to have dinner with Barack Obama. I'd ask him how he plans to handle the tough challenges he faces.

What's in your briefcase?
My laptop, to-do list, a calendar, colored pens, a *Vanity Fair* magazine, a self-help book, and some work documents.

If you didn't work in supply chain management, what would be your dream job?
I'd love to work in the fashion industry.

Business motto?
Our company has adopted the motto Focus, Accountability, Teamwork (FAT). It sums up how we operate as a company, and how I operate as an individual.

by Merrill Douglas

arrived at the company just in time to take part in a major transformation. As the vacuum cleaner industry saw consumer pricing drop, Electrolux cut back its North American production and started sourcing most of its products from Asia.

"We transitioned quickly, without investing in the right systems," Hughey recalls.

A solid supply chain partnership helped solve the problem. DHL handled freight forwarding for inbound shipments, and Electrolux used the forwarder's Log-Net system to track goods in transit.

"When you increase the volume of containers shipped from 1,000 to 5,000, you appreciate that visibility," says Hughey.

Other improvements included creating a foreign trade zone (FTZ) at Electrolux's DC in El Paso, Texas. Finished goods and components that the company imports to the facility don't have to clear customs until Electrolux ships products into U.S. commerce, which saves on duties and fees. Electrolux also doesn't have to pay duties on components it imports to El Paso, then ships to its plant in Juarez, Mexico.

Recently, Electrolux started using Logility's *Voyager* solution to help forecast customer demand, a function the company had been handling mainly with Excel spreadsheets.

"The starting point of any great supply chain is the forecast," Hughey says. "If the forecast isn't accurate, then the wrong products will be on the ocean and in the DC."

Voyager's supply planning and inventory management features will also help Electrolux. Eventually, the company will add a warehouse management system.

Hughey and her team can now give consumers a steady supply of high-quality vacuums, thanks to a clean sweep of the Electrolux supply chain. ■

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TRENDS

Forward Through the Haze

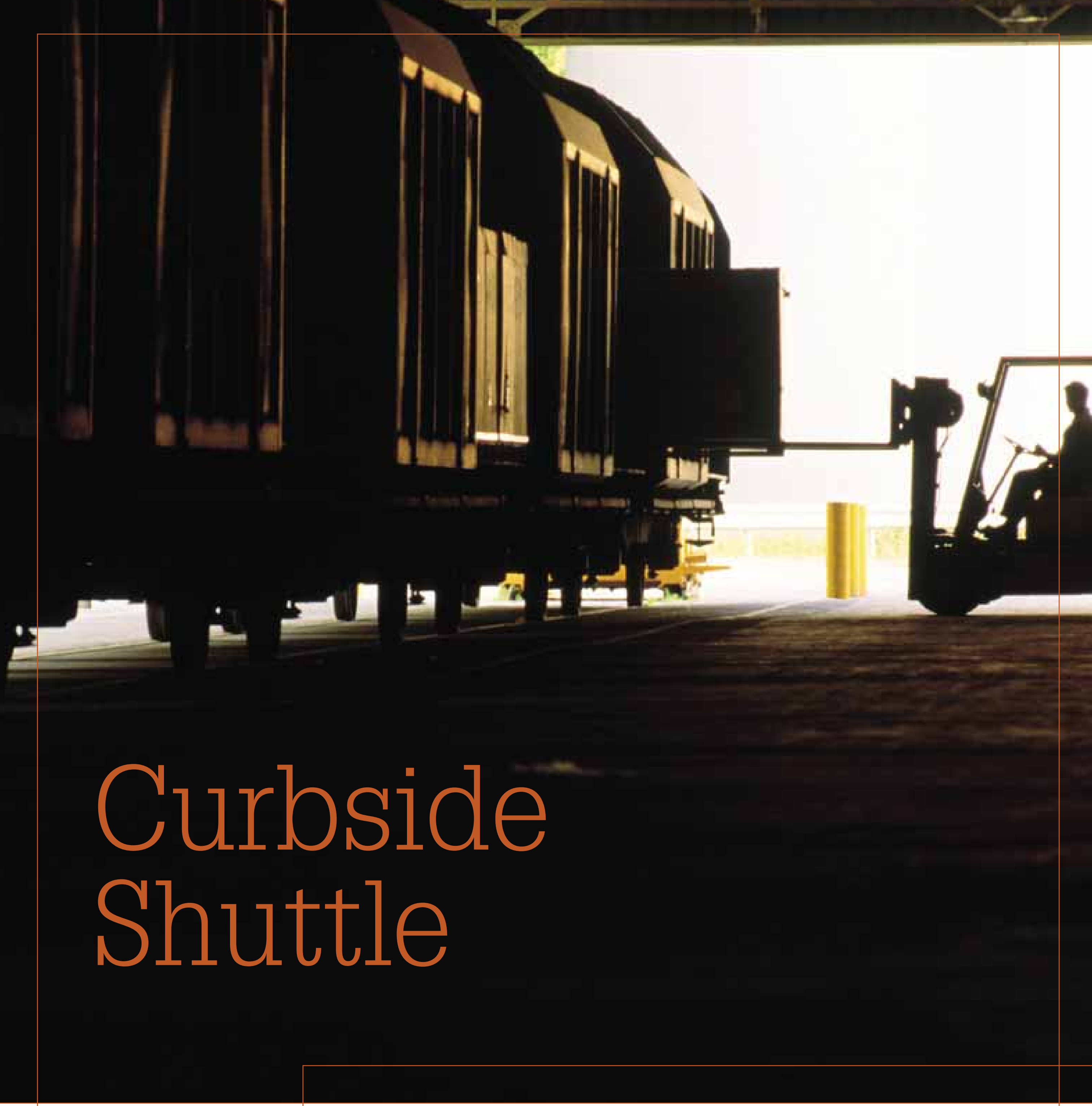
by Joseph O'Reilly

The end of the year, and beginning anew, always brings a wave of cathartic reverie–for better or worse. There is value in making a reflexive U-turn to take inventory of the year's positives and negatives–what was done well and what could be done better.

Better yet, there is merit in looking backward while still moving forward. Dwelling on the past can be nothing more than a fruitless effort of self-defeating analysis. "There was but one solitary thing about the past worth remembering…and that was the fact that it is past," Mark Twain wrote.

This past year pushed the patience of some with record-high fuel costs, a subprime mortgage collapse, and the financial sector implosion freezing, then fracturing, an already frail economy. For many businesses there was no escape; 2008 provided a crash course in crisis management, contingency planning, and courage. Now as some crawl out of their solitary confinement and others pry themselves away from the herd, 2009 heralds its own hurdles, both new and old.

While businesses are cautious about what



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lies ahead, they are equally candid in addressing the challenges they face and what they hope to do better next year.

Inbound Logistics canvassed readers and asked them to share their impressions and resolutions for 2009. Here is a snapshot of their responses:

What are the main challenges you face in 2009?

***IL* READERS:** "Volatility in oil prices and transportation costs." **"Fewer consumers."** "Optimizing inventory levels in a downward economy." **"Uncertain fuel prices and transport industry consolidation."** "Funding to promote new services and getting the word out about the use of short sea services." **"Recruiting safe and reliable drivers and increasing freight opportunities."** "Balancing revenue shortfalls against fixed charges."

***IL*'s SPIN:** Understandably, shippers are largely focused on managing price pressures, identifying cost bleeds, and mining untapped revenue streams throughout the supply chain. One shipper documented the "volatility of oil prices" and its impact on transportation costs. Realistically, the only way to insulate supply chains from fuel fluctuations is to become more efficient and flexible–to ship less by consolidating shipments and pooling deliveries or to diversify transportation buying across modes. Fuel price fluctuations have reshaped logistics, forcing companies to get greener, leaner, and more resourceful.

What steps will you take to cut transport costs in 2009?

***IL* READERS:** "We're re-evaluating all of our partners as we expect 2009 to be a difficult year." **"Inbound freight management."** "Buying regionally." **"Considering alternate modes."** "Shorter and combined trips." **"Taking full control of our freight spend (collect vs. prepaid). Our intent is to reduce empty miles."** "Sourcing more domestic suppliers, investigating rail and transloading." **"Re-bidding all lanes."** "Lowering truck speeds to reduce fuel consumption." **"Incorporate training so schedulers know when to ship LTL versus TL."** "Buying less of everything and avoiding express shipments." **"Using broker firms for additional cost comparisons."**

***IL*'s SPIN:** Driving economy is foremost on the minds of *IL* readers. Shippers are looking all over the supply chain for ways to reduce costs. They are entertaining broad-based strategic efforts such as managing inbound freight and sourcing domestically, as well as far simpler tactical approaches, including reducing truck

Pioneering a Rail Trail

When the rails meet the sails, intermodal shipments leave a trail–thanks to an innovative and collaborative effort between the Port of Tacoma, BNSF Railway, ocean carrier Yang Ming Line, and Edmonton, Alberta-based Safefreight Technology.

To enhance inland rail supply chain visibility, the Port of Tacoma is testing a Safefreight GPS system that tracks intermodal containers from the time they leave waterfront terminals until they reach their final destinations elsewhere in the United States. The system enables the port's intermodal planners to better understand inland rail issues and work with railroads and shippers to improve freight velocity, reliability, and security.

"We will be able to proactively work with our steamship and rail partners to plan for the future and make sure that Tacoma remains a high-velocity transit point in the global supply chain," says Rob Collins, Port of Tacoma manager of transportation and supply chain planning.

The port began testing the container tracking system in June 2008 and Collins says it has learned a lot about what happens to containers after they leave the waterfront. "People have assumptions about cargo scheduling, routing, and delivery, but when you dig into the data, many of those assumptions turn out to be false," he notes.

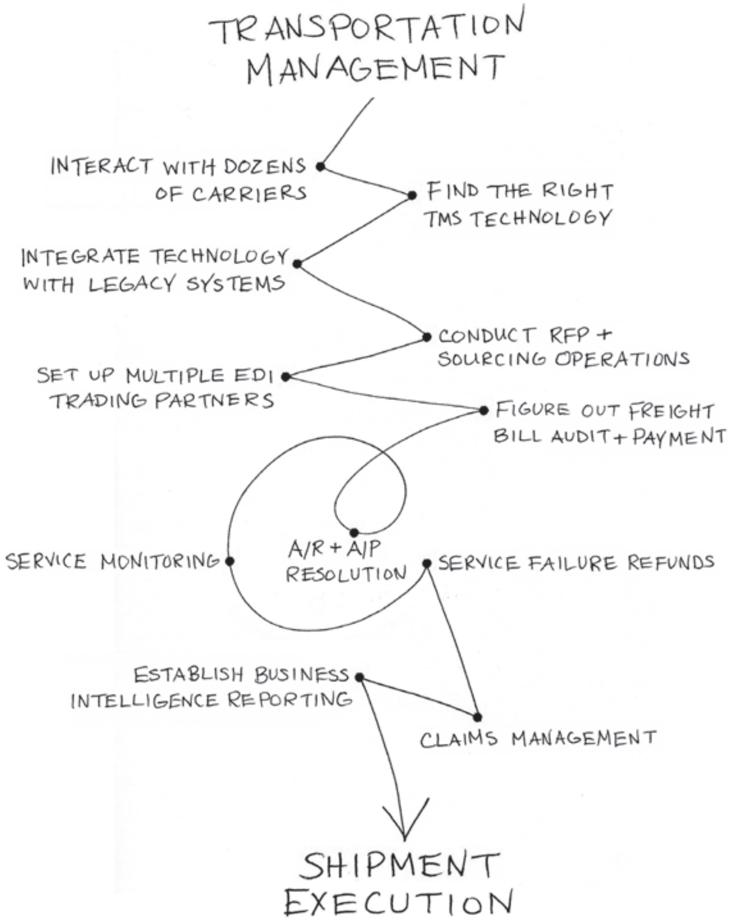
The linchpin of the Safefreight system is a rugged, portable tracking device, originally designed for truck trailers and vehicle fleets, that uses GPS and wireless technologies to provide actionable data related to location, speed, direction, starts, stops, and other metrics.

Aside from providing real-time visibility into intermodal movements, and historical data that can be used to analyze performance, Safefreight's system introduces a better means for securing the intermodal supply chain, explains Collins.

"The most secure supply chain is the most visible supply chain," he says. "Moreover, this system illustrates when cargo is moving and when it is standing still. Cargo in motion is inherently more secure."

Safefreight's GPS tracking system allows the Port of Tacoma to track rail movements all the way to final destination.

TRANSPORTATION SHOULDN'T BE COMPLICATED



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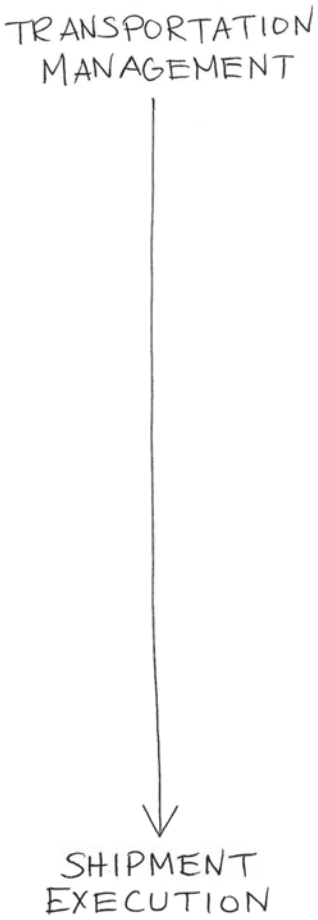

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speeds and improving employee training. Because they are overwhelmingly reluctant to invest capital in new technologies, equipment, services, and labor in a down economy, many companies are exploring ways to optimize operations and processes in situ. Regularly evaluating partners and modes–re-bidding as necessary–and empowering logistics and supply chain managers to make better decisions are ways shippers can make the best of what they can control.

Q As you plan ahead, how far out are you looking? Are you focusing on short-term, back-to-basics improvements or more strategic process improvements?

***IL* READERS:** "We take it one day at a time around here." **"One year with a focus on execution."** "Currently one to two years." **"One and five years."** "We work on a six-year short-term plan and a 20-year comprehensive plan." **"Five years ahead: expansion and benefits."** "We look out five years. The focus will be on strategic business process improvements. Our S/C 2010 program is our strategic program geared toward reducing inventory and increasing on-shelf availability." **"We look ahead several years to promote new service options."** "Looking out two to three years, focusing on both back-to-basics and strategic process improvements." **"Right now, six months. We do not project out in years."** "Short term back-to-basics." **"We are looking at one year or less to review and implement changes."** "Year by year until the economy improves."

***IL*'s SPIN:** Shippers are mixed in how they forecast future needs, likely depending on the nature of their business and general industry trends. Retailers, for example, may be inclined to keep planning as fluid and adaptable as possible to meet fickle consumer demands, while commodity manufacturers take a longer-term approach, vetting broader industry variances. Businesses also have different types of forecast engagements,

A Real Recycling Taste Test

Now beverage manufacturers and consumers can put their bottles where their mouths are as they sip their green teas and compare how efficient they really are. A new beverage container recycling report conducted by San Francisco-based corporate responsibility watchdog As You Sow, evaluates the recycling practices of 23 U.S. beverage companies.

"Despite some impressive progress, most beverage companies continue to fail basic criteria for dealing with the environmental implications of their packaging," says Amy Galland, As You Sow's research director.

More than 200 billion beverage containers are sold in the United States each year, but 130 billion of those are sent to landfills, representing a huge waste of natural resources, according to the report. It also suggests that manufacturers are losing value in how they package product and redeem costs in the aftermarket supply chain.

The study, *Waste and Opportunity: U.S. Beverage Container Recycling Scorecard and Report*, analyzes beverage companies based on four criteria: source reduction, use of recycled content, beverage container recycling, and transparency.

Companies can reduce emissions and cap energy expense by using recycled materials in their containers. For example, recycled aluminum uses 95 percent less energy; recycled glass 35 percent less energy; and recycled plastic 30 percent less energy.

Aside from these benefits, "source reduction has the most direct impact both on a company's bottom line and on its environmental footprint," the report concludes.

And the Winners Are...

Coca-Cola Co. outranks beverage industry peers overall, leading in its commitment and performance on beverage container source reduction, company-wide recovery goals, and investments in recycling programs. It has pledged to recover 50 percent of its plastic bottles and cans by 2015.

PepsiCo reports the highest percentage use of recycled PET (polyethylene terephthalate) in its bottles (10 percent) followed by Coca-Cola at three percent.

No other company consistently uses recycled PET. Anheuser Busch uses standard aluminum industry ingots with 41 percent recycled content, whereas both Coca-Cola and Red Bull report they exceed the standard.

Nestlé Waters North America showed the greatest improvement since publication of As You Sow's 2006 scorecard, and recently set an industry-wide goal of recycling 60 percent of PET bottles by 2018.

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from near-term tactical improvements to more far-reaching–and time-consuming–business process strategies.

What new globalization initiatives will you undertake in 2009?

IL READERS: "More offshore activity to reduce costs." **"Low-cost country sourcing."** "Using fewer suppliers." **"Capitalize on Asian cube and direct-ship initiative in ports with critical mass. We're looking to increase cubage per container and eliminate touches at North American DCs."** "Continue to shorten the supply chain, sourcing domestic suppliers in order to cut lead times, reduce inventory, and reduce transportation costs." **"Outsourcing more contract logistics to gain better inventory visibility."** "We're looking at opportunities to sell into emerging consumer markets."

IL's SPIN: By and large, respondents indicate little or no activity offshore beyond what is already in place. Those considering global initiatives are leveraging supply chain sophistication and geographic scope to find economies in different ways: exploring less-expensive production sites, divesting non-core processes to third-party logistics providers, and pushing business process improvements farther upstream in the supply chain to reap value closer to home. Alternatively, some companies are looking at ways they can expand their presence in new markets.

What is your logistics/supply chain New Year's Resolution?

IL READERS: "Nearshore." **"Hit or exceed budget/cost expectations and increase service levels."** "Keep the pressure on." **"Find a carrier group that can move all my freight (TL, LTL, CL, LCL and air freight) with competitive rates."** "Better management of our driver workforce." **"Dig in, get tough and don't spend money. And what money we spend will be on bare-bones necessities."** "Monitor freight costs and damages more efficiently." **"Buy low, sell high."** "To be the best with all my might." **"Cozy up to a bottle of Jameson's."**

IL's SPIN: New Year's resolutions come with one caveat–they are subject to change. Businesses, arguably, have more at stake to make sure these promises stick. Rest assured, one *Inbound Logistics* reader among us has already made a dash to the weight room; and another has snuggled up next to a crackling fire with his beverage of choice, pondering the imponderables 2009 may bring. ■

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...And Then There Were Two?

In the 1930s there were more than 130. By the early 1980s there were 40. Today there are seven Class I railroads. Consolidation in the North American railroad industry has run rampant since the Staggers Act introduced free-market competition in 1980. Some see this trend continuing. Is it conceivable that in the future only two Class I railroads will be operating?

That's what Hunter Harrison, president and CEO of Canadian National (CN), predicts as the likely future for North American railways. He believes two über railways will replace CN, Union Pacific, BNSF, Canadian Pacific, CSX Transportation, Norfolk Southern Railway, and Kansas City Southern Railway.

Harrison's vision, which he shared during a keynote speech at the Canada Maritime Conference in Vancouver late last year, comes as CN faces public outcry over its anticipated acquisition of the Elgin, Joliet, & Eastern Railway (EJ&E).

CN Rail agreed in 2007 to buy a major portion of the Chicago-area railroad in a bid to eliminate the biggest bottleneck in its network and reroute volumes on nearly 200 miles of track encircling the city. The U.S. Surface Transportation Board approved the railroad's sale in December 2008, but local county officials are planning to appeal the decision later in 2009.

Harrison's proposed end game scenario would facilitate investments and authorizations to help integrate the North American freight railroad system and increase velocity throughout the continental network.

His consensus, shared by many, is that railroads should be ferrying more freight because they can do it more efficiently and economically than motor freight carriers.

"The prediction is that rail freight will grow by 45 percent," Harrison stated. "That is quite a challenge, calling for better use of existing capacity and improvements in speed and velocity (turnaround times for equipment). How fast will we go? I see freight trains operating at 100 miles per hour."

A final round of giant mergers would make it easier to implement accelerated freight services as it would avoid problems in getting the railroads to collectively agree on sharing high-speed rolling stock. In turn, this would make the tracks a more attractive option for shippers straddling the intermodal rail.

REASON VERSUS REALITY

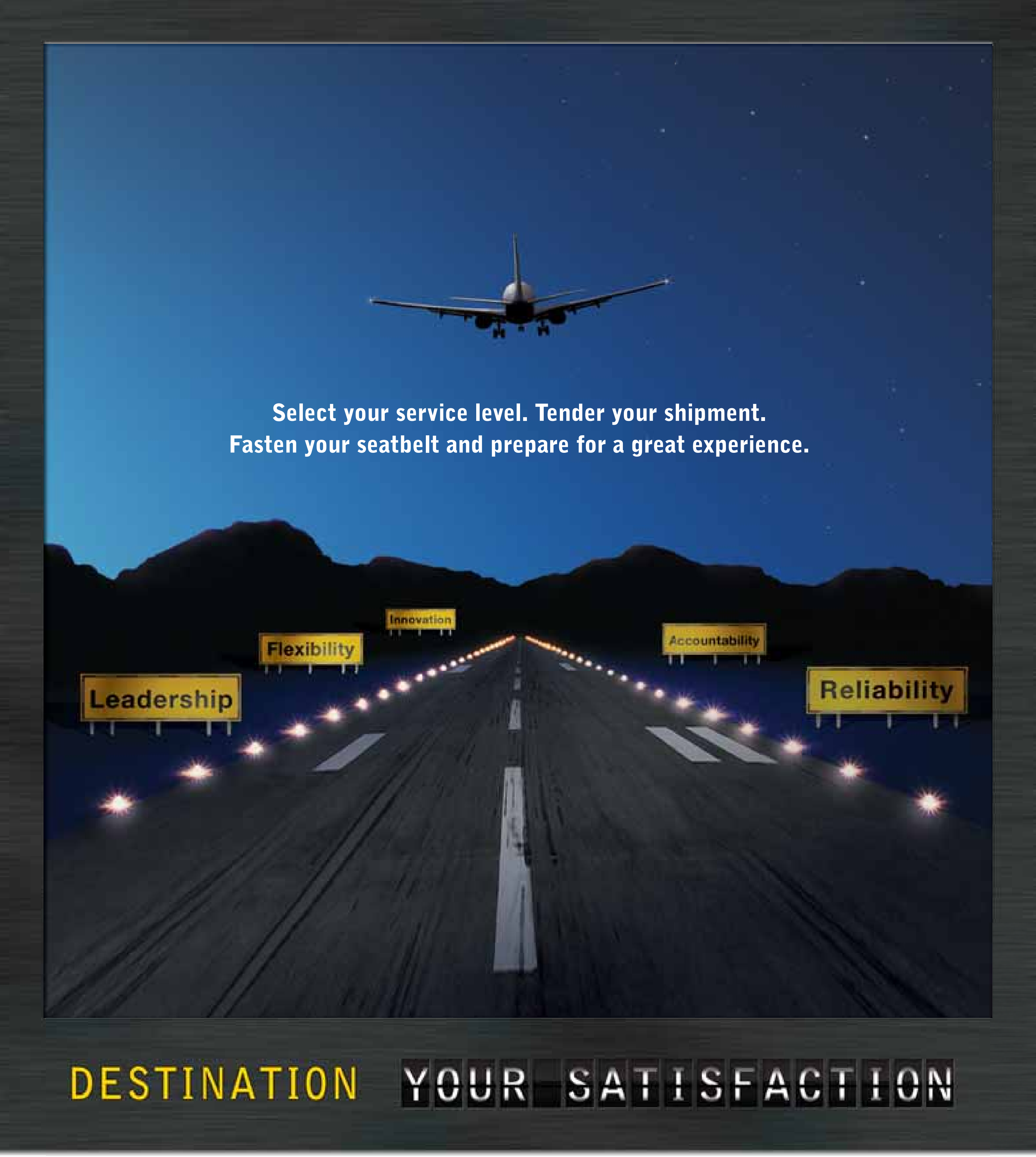
To make this vision a reality and increase velocity across the North American network, public-private partnerships would be necessary to eliminate grade crossings by providing overpasses or underpasses. Currently, it would be difficult to win agreement among the seven Class I railroads on what design of high-speed freight equipment should be used and how cars should be interchanged, Harrison says.

An interim solution, pending a spate of super mergers, is for railways to operate high-speed equipment in closed loops, not allowing them to stray onto other railways, Harrison suggests.

Whether the U.S. government would allow such consolidation opens up an entirely new debate. Competition is a self-regulating means for driving innovation, while alternatively holding railroads accountable for delivering on promise and investing in their networks and services. Perhaps the more likely and necessary scenario is government giving carriers and shippers a long-term plan that facilitates investment in infrastructure and equipment to improve capacity, velocity, and service as Harrison proposes.

To date, however, Congressional efforts to introduce rail legislation beneficial to both shippers and carriers are at loggerheads. Both the *Freight Rail Infrastructure Capacity Expansion Act of 2007* and the *Railroad Competition and Service Improvement Act of 2007* have reached an impasse in Washington.

In the meantime, and at the very least, Harrison's vision for the future may spur much-needed dialogue that forces industry and government to finally act.



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Industry Keeps on Trucking

The motor freight market is treading carefully as companies shed excess assets and table capital investments in new equipment. With the current economic quagmire expected to deepen in 2009, two industry sources report new truck spending will likely remain slack until the end of the year, at the earliest.

Carriers are adjusting to the new economic environment and most expect the adjustment phase to continue through 2009, according to a business expectations survey conducted recently by Transport Capital Partners (TCP).

"This is further evidence that the tightening of credit, documented in our survey of major industry capital suppliers, is reverberating throughout carrier planning sessions this season, and truck manufacturing forecasts at the majors and their suppliers are based on similar premises," says Richard Mikes, managing partner for the Nashville-based consultancy.

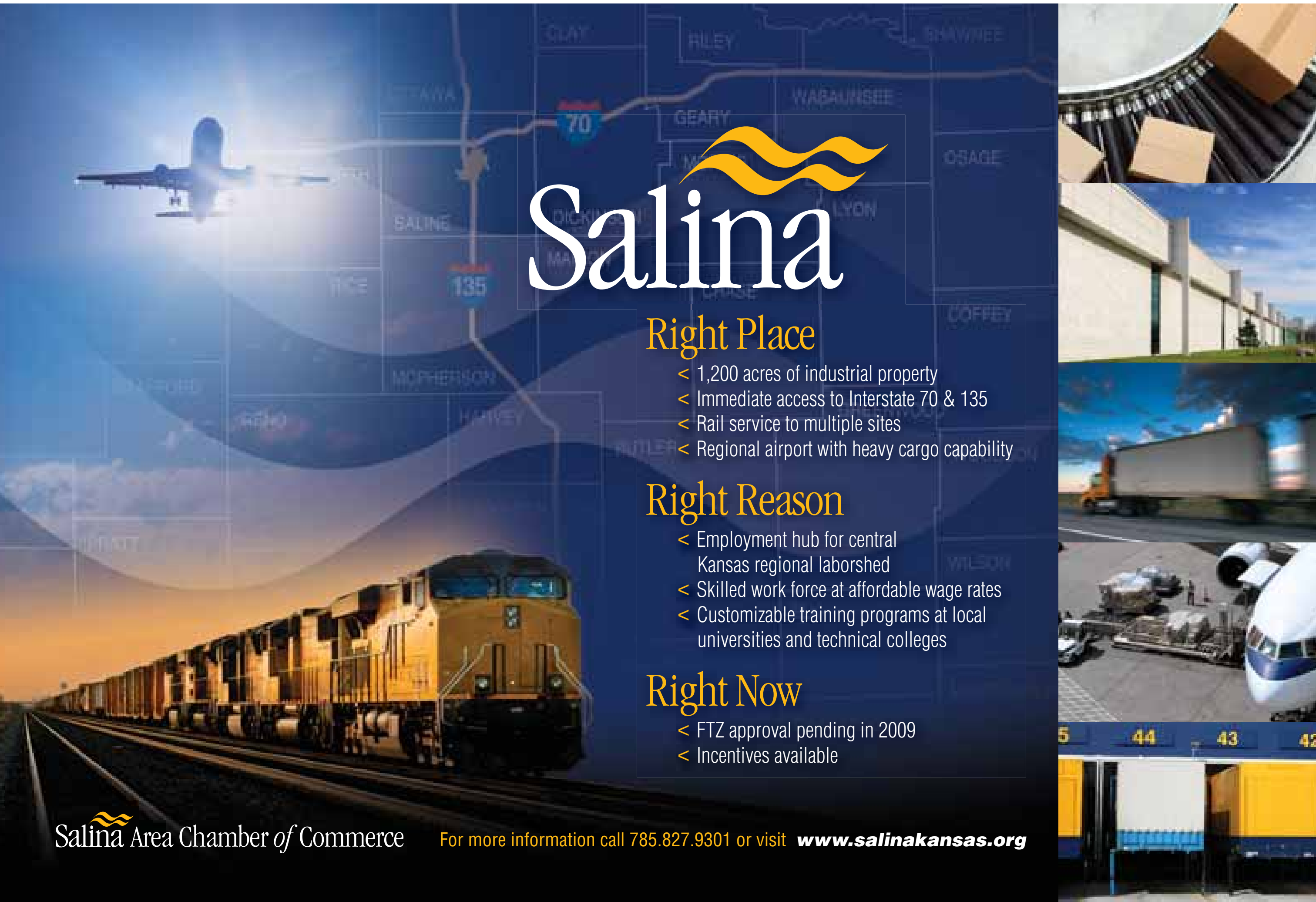
TCP's survey, which summarizes 2009 expectations for trucking suppliers, reports that 33.8 percent of trucking respondents expect business volumes to decrease, while 37.7 percent estimate volumes will remain the same. Additionally, more than 50 percent anticipate credit availability tightening.

"Recent discussions with carriers reveal a belief that a number of them will go out of business by next spring, thus reducing capacity in the industry and improving conditions for the survivors," adds Steven Dutro, a TCP partner.

Consequently, projected equipment purchasing plans are low: two-thirds of responding carriers expect to replace less than 20 percent of their tractors in 2009, 17.3 percent plan to replace between 20 and 40 percent of their fleets, and only 9.4 percent have plans to pre-buy in anticipation of 2010 engine standards.

Another near-term outlook shared by A.C.T. Research, a Columbus, Ind., commercial vehicle market research company, indicates that falling energy prices and the upcoming government stimulus packages might drive recovery by the second half of the year. If so, the current reduction of capacity in the U.S. tractor fleet could spur recovery in a tighter supply environment.

If a strong recovery does begin in late 2009, it could drive demand for replacement equipment and technology mandated for new Class 8 trucks by the U.S. Environmental Protection Agency, A.C.T. reports. ■



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GLOBAL LOGISTICS

by Joseph O'Reilly

Inside a Trade Mission to India

It's not easy gold-mining new business prospects offshore. For small companies without the capital, resources, and partners to survey the globe, stake a claim, and dig in, making cultural inroads and chasing business contacts presents a challenge.

FedEx knows a thing or two about spanning the world and helping small and medium-size businesses (SMBs) expand their global mindshare. So the Memphis-based expeditor partnered with the U.S. Commercial Service, the trade promotion unit of the International Trade Administration, to launch a series of fact-finding trips–beginning with India this past November–to help SMBs make the leap into emerging markets.

"Together with the U.S. Commercial Service, FedEx chose India as its first trade mission because of the country's large and growing consumer culture and the value of creating a networking opportunity for businesses," says Jill Brannon, senior vice president of international sales, FedEx, and one of the company's lead representatives and presenters on the trip.

From Nov. 9 to 14, 2008, the public-private partners hosted 12 U.S. companies, from a broad range of industries, interested in entering or expanding in the Indian marketplace.

FedEx and the U.S. Commercial Service's first trade mission took participants to one of the world's fastest consuming economies.

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CONTINUED FROM PAGE 36

India's robust economy is a prime target for businesses exploring manufacturing and selling opportunities.

Participants were ferried around India's three leading business enclaves–New Delhi, Hyderabad, and Mumbai–to absorb networking opportunities and market intelligence that might support future interests.

"Playing in this market is especially challenging for SMBs," Brannon tells *Inbound Logistics*. "With FedEx's global brand, and the government's backing, we can help small companies seize what is often a nebulous opportunity."

MAKING INTRODUCTIONS

FedEx and the U.S. Commercial Service are complementary alliance partners. The expeditor possesses the transportation, logistics, and supply chain expertise and resources, while the government arm flexes relationships with companies in India that can help U.S. importers and exporters find distributors.

For businesses such as Kaydon Filtration, a Lagrange, Ga., company that builds filtration products for power plants and other industries, an opportunity to break through the bureaucracy of

Russian Retailer Gets Hooked Up

Leading global manufacturers including Kraft Foods, Nestle, and Procter & Gamble, along with German-based retailer METRO Group, are expanding their use of the Global Data Synchronization Network (GDSN) in Russia.

The GDSN is an Internet-based network of interoperable data pools and a global registry that allows companies to exchange standardized supply chain data with trading partners.

METRO Group's suppliers are leveraging the GDSN to marry line-item data at the point of sale with available supply chain inventory to synchronize product catalogs. This connectivity allows all parties involved to realize supply chain benefits such as reduced paperwork and improved service levels thanks to faster new-item setups and more accurate product data.

Enabling active GDSN connections in Russia is a milestone for the data-synchronization industry, given the country's dynamic market conditions. As one of the fastest-growing European economies, Russia offers significant potential for suppliers and retailers to grow across all sectors. This GDSN connection provides a faster and more cost-effective flow of information and goods in a country where electronic master data exchange is still evolving.

"By synchronizing product data with METRO Group in Russia, we are able to get real-time inventory updates from its stores in the region," says Janna Kouchina, director sales, Kraft Foods Russia. "This gives us the ability to get our products to the store shelf faster.

"We hope that more retailers will adopt this process, giving us the ability to experience similar benefits across our global supply chain," Kouchina adds.

Moving forward, METRO Group is looking to synchronize item data with all its global suppliers, beyond efforts already underway in Russia, Germany, Poland, and the United Kingdom.

Tapping the Global Data Synchronization Network gives METRO Group's suppliers item-level visibility into the retailer's available inventory and replenishment needs.

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> "You can't imagine the importance of going to a dinner reception with the ambassador to India and other high-level business contacts. **The personal connection is critical** to breaking in and understanding how to do business in India."
>
> –**Mike Smith**, v.p., Kaydon Filtration

India's market was welcome after recent failed efforts.

"It's a difficult proposition to create a need without an entrance into the country–someone to arrange meetings and business connections," says Mike Smith, vice president, Kaydon Filtration, who was among the mission participants. "Our initial efforts looking for international sales people working in India were very unscientific. If you don't know how to do business in these areas, you're at a disadvantage."

The objective of the trade mission is to help businesses target export growth potential in India. Kaydon, specifically, is exploring potential markets–including India and China–where crude oil prices have become commoditized both domestically and globally.

YOU CAN'T MUSCLE PROGRESS

"We have been working with the U.S. Commercial Service in China," says Smith. "But coordinating the logistics to make inroads is difficult. We've had better success with our activity in China because we've been there longer. It's difficult to muscle progress."

In India, Kaydon is looking to partner with companies that can promote and support its product line. The country is a fast-growing market for power-driven industrial equipment.

Trade mission participants met face-to-face with decision-makers from Indian businesses, U.S. business executives operating in India, members of business organizations, government officials, trade specialists, and others. The mission also helped delegates find partners, distributors, agents, and buyers in India through pre-screened matchmaking appointments.

As proof of its networking value, Kaydon came away with two outstanding business contacts and some other interesting opportunities, notes Smith.

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While targeted at helping U.S. businesses identify export possibilities, other companies approached the trade mission with an open agenda. Raj Narayanan, a marketing representative for Sawyer Composite, a Ft. Worth, Texas, aerospace company that designs, manufactures, and prototypes advanced tooling and composite parts, was looking at both sell-in and sourcing prospects.

THE PROMISE OF INDIA

"The barriers to entry are significant," he explains. "The Asian aerospace market is tough to crack if you don't know the right people within the organization. Because time and resources are limited, we needed a focused effort, which the FedEx trade mission provided."

India holds great promise for Sawyer Composite, which also happens to be a FedEx supplier. The company makes tools used in manufacturing components for FedEx's new 777 aircraft.

"Aviation travel is picking up rapidly, so engineering development is increasing and we're getting involved in that market," Narayanan notes. "Aviation is a global business and India is getting play in that field by manufacturing and developing aircraft systems and commercial aviation networks."

Sawyer Composite, which currently sells exclusively in the United States, is exploring opportunities to sell, as well as manufacture, product in India. "We have looked at the potential for manufacturing some components in India, where there are opportunities to utilize its labor market and technical expertise, and bring them back to the United States," he adds.

While all the trade mission participants had selective interests for joining the delegation, the concepts of corporate management, and India's inherent hurdles, reach across all vertical boundaries. Beyond business-mining objectives, both Narayanan and Smith appreciated the cultural awakening they experienced meeting with Indian representatives and their peers.

"You can't imagine the importance of going to a dinner reception with the ambassador to India and other high-level business contacts," Smith explains. "There are some exponential factors above what we think is important in the United States. The personal connection is critical to breaking in and understanding how to do business in India."

Narayanan shares a similar perspective. "Person-to-person contact is very important in India," he notes. "But the United States is a fast-food world – after you make a connection, you may never see that person again."

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Europe Tracks Change

Rail freight transport is a critical link in Europe's supply chain, serving as a high-volume conduit between its ports and hinterlands. Ongoing investment in equipment and infrastructure is laying down tracks for more efficient cargo movement.

Deutsche Bahn Pilots Long Train

Deutsche Bahn has successfully demonstrated the feasibility of using longer trains to more efficiently move freight in and around Europe's congestion-choked port facilities.

The German railroad, in cooperation with Netherlands-based infrastructure operator KeyRail, recently tested a 3,280-foot-long freight train on the Betuweroute between Oberhausen, Germany and Rotterdam. Financed by the Federal Ministry of Economics and Technology, Project GZ1000 is exploring the limits of transport capacity on Deutsche Bahn's current network in order to relieve bottlenecks on seaport routes.

The purpose of the trial is to evaluate the technical, operational, and economic viability of deploying longer freight trains, as current Deutsche Bahn systems can only accommodate equipment with a maximum length of 2,460 feet.

The Betuweroute is the first rail line in the Netherlands exclusively dedicated to rail freight traffic. As a hinterland link for Dutch seaports, shippers have a stake in using longer freight trains to mediate congestion and increase rail velocity and throughput.

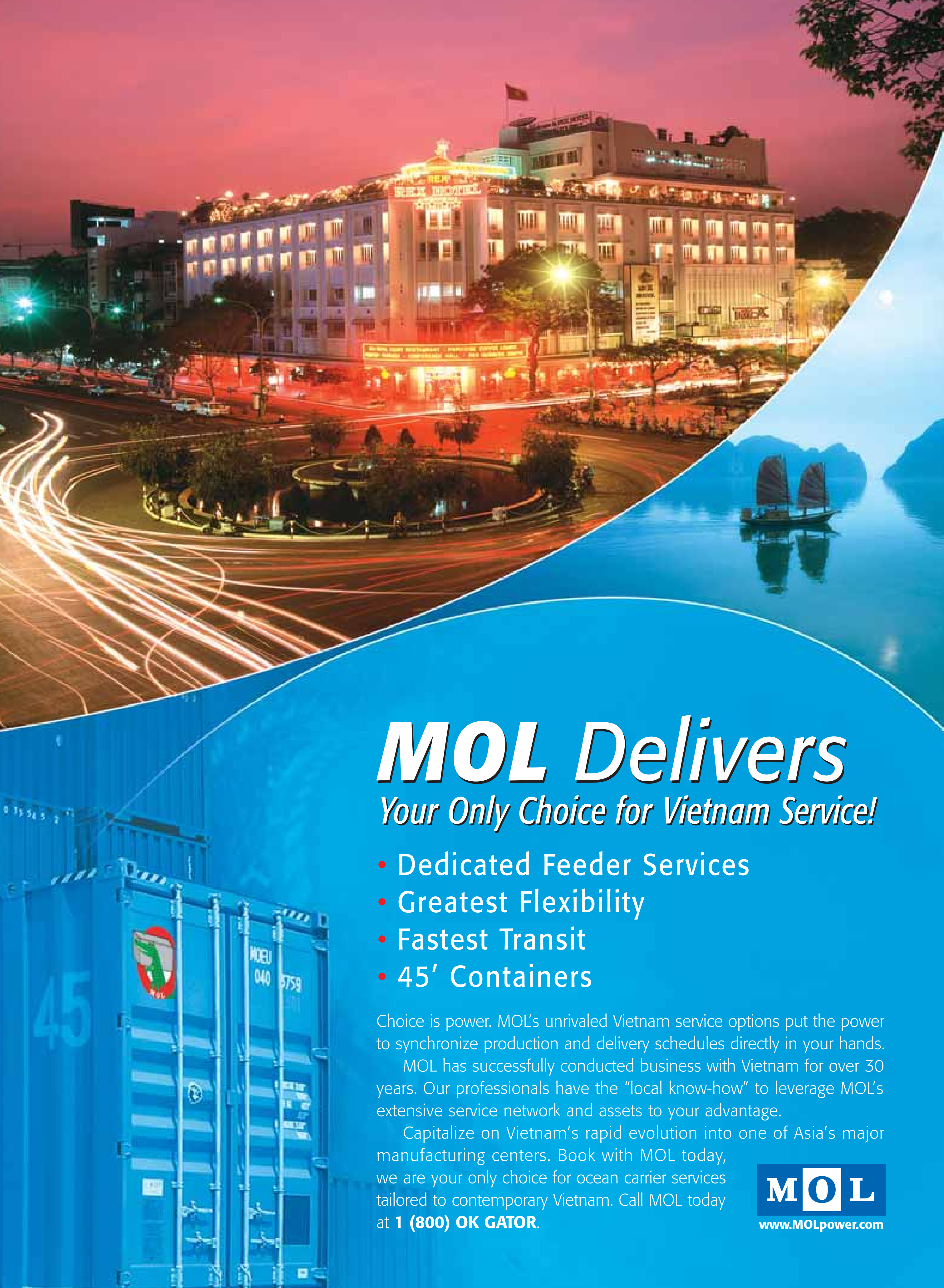
France Sets Sights on Rail

President Sarkozy's government has raised the importance of infrastructure development as a means toward steering France's economy in a new direction, focusing on structural problems rather than fleeting concerns. His vision appears to be gaining traction on the transportation side and may serve as an example for government closer to home.

Given chronic road congestion and fluctuating fuel costs, rail freight transport presents a competitive alternative to over-the-road options. Measure for measure with broader European Union (EU) directives to liberalize freight transport, the French government has proposed increasing the percentage of non-road freight from 14 percent to 25 percent by 2012–an effort that would also reduce carbon emissions 20 percent by 2020.

France's railroad sector was deregulated in March 2006, and a newly created Railway Regulatory Commission will be responsible for ensuring open access to all European operators. Developing intermodal infrastructure is critically important to the country's prospects for attracting more economic development interest from foreign business and cementing transportation synergies with EU partners.

The country's progressive development plans come as neighboring countries invest in and expand their own transportation infrastructure. The opening of the Perpignan-Luxembourg rail link and the Swiss AlpTransit project will provide improved north-south rail links though the Lötschberg and Gotthard transalpine railway tunnels. Complementing these endeavors, France's planned Lyons-Turin rail tunnel will provide a key link in the European railway transport network, connecting Barcelona, Budapest, and many points in between. ■



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John Deere Pulls it Together


John Deere's Brazilian operation is plowing progress by consolidating its DC footprint.

Across the world, businesses are pulling back and leaning out their supply chains to account for a wide-spreading economic malaise. In Brazil, they're pushing toward the coast.

Anticipating a need to consolidate and optimize its logistics assets and processes, agricultural machinery manufacturer John Deere plans to merge two of its Brazilian distribution centers – one in Catalão and another in Horizontina – with the help of CEVA Logistics, a global third-party logistics provider. The new DC, sited 100 miles from the coast in Campinas, Sao Paulo, intends to facilitate more efficient resource use and replacement part movement.

The new venture isn't CEVA and John Deere's first rumble in the jungle. The two global organizations have worked together during the past six years on projects including the two distribution centers now under consolidation.

The game plan for the DC merge started with adopting CEVA's Lean program, which strives for efficiency, intelligence, and elimination of waste. In addition to its proximity to the coast, the new DC offers other transportation benefits.

"The distribution center in Campinas is strategically positioned next to the Viracopos airport and the Santos Dumont highway," notes Giuseppe De Vincenzo, managing director for CEVA.

Historically poor modal connectivity between inland points and Brazil's productive port complexes may have added further incentive for John Deere to shift its assets closer to the coast and the country's more developed transportation links. The manufacturer's new location puts it in good company. A number of multinationals – including Avon, General Motors, and Intel – operate distribution centers near Campinas. ■

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A Slice of Time for Logistics

As the global economy shrinks and slows down, manufacturers, suppliers, retailers, and merchandisers have to squeeze every ounce of efficiency from their operations. In the rush to cut costs, however, they sometimes overlook the impact that time has on the ability to sell more products or to be more efficient.

Time is a precious commodity in all businesses. When seeking to optimize supply chains it is important to look not just at cutting costs. True supply chain excellence can only be achieved by analyzing the time it takes for each element in the logistics operation; a time slice.

Many logistics providers understand how to cut costs, but only a few have mastered the ability to effectively manage the time it takes to perform each function of the supply chain. Many 3PLs offer expedited solutions only as a supplement to standard services. This approach can be ineffective because of the natural tension between more efficient standard modes and higher-cost expedited solutions.

Devoted to Saving Time

Many general logistics companies tout their ability to offer economies of scale. But expedited logistics providers are completely geared to helping their clients save time.

Take stripping containers as an example. This is a standard supply chain function: containers come into a facility and are de-vanned as part of the business day's normal workload. An expedited logistics company will process this load at a specific time in a specific time frame, aligning the distribution operation with carrier schedules so that goods can get to market faster.

Assembly and kitting services offer another example of how expedited 3PL specialists can boost sales and efficiency. Let's say a consumer electronics company plans a new product launch for the holiday season. A major electronics retailer operating more than 1,100 stores gives the custom POP display prime floor space for one month. The logistics provider must assemble and kit these displays with product, and deliver to all 1,100 outlets on the same day.

As products are assembled and shipped, companies can invoice faster – improving their cash flow and, at the same time, achieving maximum marketing exposure to consumers. Expedited logistics providers give the competitive edge to companies that are willing to use a partner with expertise in this approach.

How the Time Slice Experts Do It

Each component of the supply chain must be broken down in time values. There is no reason for a company to have a hard timeline for transportation yet have no control of the time frame for other logistics components. As each logistics component is assigned a time frame, companies can better quantify the effectiveness of logistics policies and marketing efforts.

All transportation modes should be treated using a similar time concept. Ocean freight, for example, has a longer time frame than air freight, but there is no reason that a time value cannot be put on this mode of transportation.

Understanding the Time Slice Concept

Do your logistics partners understand the "time slice" concept? Do they have fundamental experience in managing time and your expedited demands? Do your providers merely "broker" services out or do they take responsibility for transportation and provide in-house services for various logistics projects?

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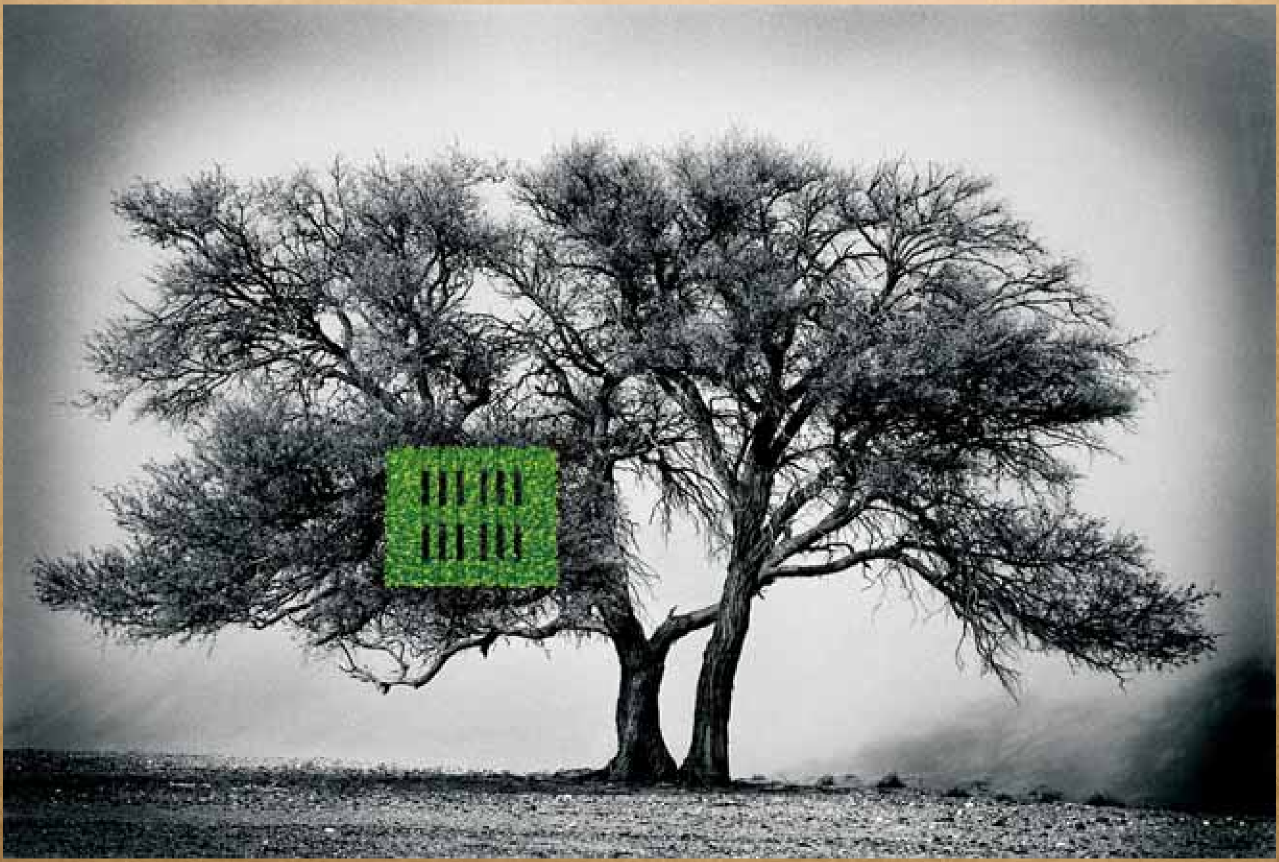

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CARRIERS CORNER

by John McDevitt

The Benefits of Reducing Your Carrier Base

You've heard the adage, "Focus on the journey, not the destination." In the transportation business, you must be relentlessly focused on both. This is where carrier relationships come into play.

Allocating individual shipments haphazardly across a large number of carriers limits both operational efficacy and economies of scale. Too many touch points in the supply chain increase the likelihood that key steps will be bypassed, resulting in a breakdown that could lead to lost shipments, customers, and profits.

Focus on building productive relationships with select providers who deliver sustainable competitive advantage in addition to delivering freight. While reducing your carrier base sounds like a daunting task, the rewards far outweigh the risks.

In addition to avoiding business disruptions by reducing the number of touch points in your supply chain, shrinking your carrier base can lead to significant cost savings. When using multiple niche providers, you lose operational efficiencies and dilute the value of your buying power. By working with one carrier, you concentrate your spending and obtain more economical pricing options. You also realize savings on the back end by reducing processing costs and paying fewer freight bills.

Supply chain visibility is another area where you can reap the rewards of a smaller carrier base. Technological advances provide the ability to "see" where your freight is at all times. This gives you the flexibility to make real-time business decisions, including communicating delays to customers and planning for contingencies. When multiple parties who aren't connected handle your goods, you can quickly lose visibility into your supply chain. Streamlining your carrier base enables you to answer customer inquiries about their shipments' status.

MAKING THE RIGHT CHOICE

As the critical link between you and your customers, carriers should be seamless partners in your business. They should understand your business needs and how those needs fluctuate. They should monitor their own performance and make changes proactively when needed. They should have flexibility to adapt to your customers' needs. Most importantly, they should help maximize your transportation investments.

Consider the following points when choosing core carriers:

- **Scope of network**. Where does the carrier provide coverage, and how does this align with your existing business and growth strategies?
- **Breadth of portfolio**. Are end-to-end solutions available, and to what degree does the carrier integrate disparate services?
- **Economies of scale**. Does the provider's volume enable cost efficiencies? Can you realize true end-cost savings?
- **Commitment to service**. Can the carrier demonstrably enhance your brand through high-quality service delivery?
- **Operations interface**. How will command, control, and communication be exercised internally and externally?
- **Financial footing**. Is the provider positioned for reliable continuous operation? Does it mitigate risk or add to it?

Market pressures are at play today that cannot be controlled. Transportation doesn't have to be one of them. By reducing your carrier base, you can develop lasting partnerships resulting in a seamless experience for you and your customers. ■

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by C. Daniel Negron

Facing the Challenges Ahead

During the past year, global events created new concerns for logistics operators. For some, finding insurance coverage has become increasingly difficult, as insurance companies need to balance the likelihood of a significant loss against the prospect of recovering their payout–a trying task in times of financial uncertainty.

Purchasing insurance may well become costlier in the coming year as investors conserve their capital, which, in turn, diminishes the industry's capacity to write business. After several years of consistently softening rates, the insurance market showed signs of hardening this past summer, as claims began to unbalance overall underwriting results and investment income diminished. Earnings came under further pressure as portfolio values suffered significant declines.

As a result, the cost of purchasing insurance may rise in the coming year. The timing is particularly bad, as shippers will likely see their earnings drop in the face of diminished global trading volumes caused by a slumping world economy.

The tide may be shifting domestically, however, as the logistics sector begins to adjust to an apparent change in manufacturers' needs. With transportation costs reaching new highs this year, some no longer found it economical to manufacture goods abroad and ship them to the United States.

When fuel costs hit all-time highs and the dollar hit all-time lows, manufacturers began to reconsider locating assembly and distribution centers closer to U.S. consumer markets. Despite subsequent roll-backs in fuel costs, long-term forecasts call for eventual increases.

BRINGING BUSINESS BACK

Reflecting these conditions, the domestic logistics market is projected to expand six to nine percent in the coming year. Logistics operators have been partnering with manufacturers to service virtually every leg of the supply chain process. From assembly line to delivery at final destination, regional intermodal centers have geared up to provide integrated transportation and logistics services to customers.

As they look a few years into the future, ports along the Gulf Coast and at inland destinations have begun preparing for a projected increase in container volumes after the Panama Canal expansion is completed. Inland ports and distribution centers will likely play a greater role in servicing customers throughout the country.

CARGO SCREENING CONCERNS

Regulatory compliance will be an issue for air cargo carriers in the coming year, as the government continues to implement regulations aimed at enhancing the nation's security.

Approximately 12 million pounds of cargo are transported each day on passenger aircraft in the United States, according to the Transportation Security Administration, which faces the mandate of physically screening at least half of this cargo by February 2009. By August of the following year, all cargo traveling on passenger aircraft must be fully screened for security purposes. For some operators, this will present a financial challenge. For others, it may open new opportunities.

The transportation industry continues to adjust to the demands of shippers, who, in turn, must meet the changing needs of world markets. ■

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3PLLINE

by Tom Jones

Why You Don't Want an Obedient 3PL

What is an obedient third-party logistics provider (3PL)? It is one that doesn't share responsibility for its customers' success and simply does what it is told. It keeps quiet when it knows the shipper's request is misguided, and doesn't offer new ideas for re-thinking project goals.

When a shipper views its 3PL simply as a tactical service provider, you can be sure the relationship will not yield the kind of results either party expects.

Collaboration is key to avoiding obedience. The most successful relationships are ones where the shipper realizes that outsourcing supply chain activities doesn't mean relinquishing supply chain management responsibility. Shippers must strike the delicate balance between managing the 3PL relationship and managing the services that are being offered.

Wise shippers tap into the 3PL's deep experience and actively solicit new suggestions for improving operational efficiency. They also define shared accountability and key performance indicators to ensure that top-line goals are met, while giving the 3PL freedom to contribute new perspectives and ideas.

Daily management of the 3PL relationship is just as crucial to achieving desired performance results as getting the strategy right on paper and negotiating a well-defined contract. In addition to establishing success metrics for your supply chain, establish success criteria for your supply chain partnership: flexibility on both sides, an understanding of challenges, and ownership of each other's problems. A supply chain partnership is only as strong as the skills and cooperation its participants bring to it.

A STRONG PARTNERSHIP

So how can you prevent an obedient relationship with your 3PL? Here are some places to start.

■ **Establish mutual interests and share goals.** 3PLs and shippers should have a vested interest in each other's success.

■ **Focus on performance rather than cost-cutting.** 3PLs will always be able to deliver cost-cutting efficiencies; the best relationships also ensure high performance and customer service levels.

■ **Share more information than you normally would with a supplier.** Include your logistics provider in upfront discussions about infrastructure, sourcing, IT, and overall business strategies.

■ **Be open and honest.** Insist on frank discussions about expectations, price, and projected work levels. If you are not comfortable taking this step, you shouldn't outsource your supply chain.

■ **Keep the relationship on track.** This approach requires daily discussion. The relationship can't be evaluated once a year if it is to be successful.

When a company's goals are short-sighted and focused just around skimming the budget, the long-term goal of improving supply chain performance becomes more difficult to achieve. If shippers want to harness the power of their supply chains as a competitive advantage, supply chain management needs to become part of an overall change management strategy. This means taking a holistic approach to improving productivity, not just cutting costs.

Shippers will always have to address tactical functions and cost pressures. For the most successful shippers, competitive differentiation comes from recognizing the value of collaborating with a non-obedient 3PL. ■

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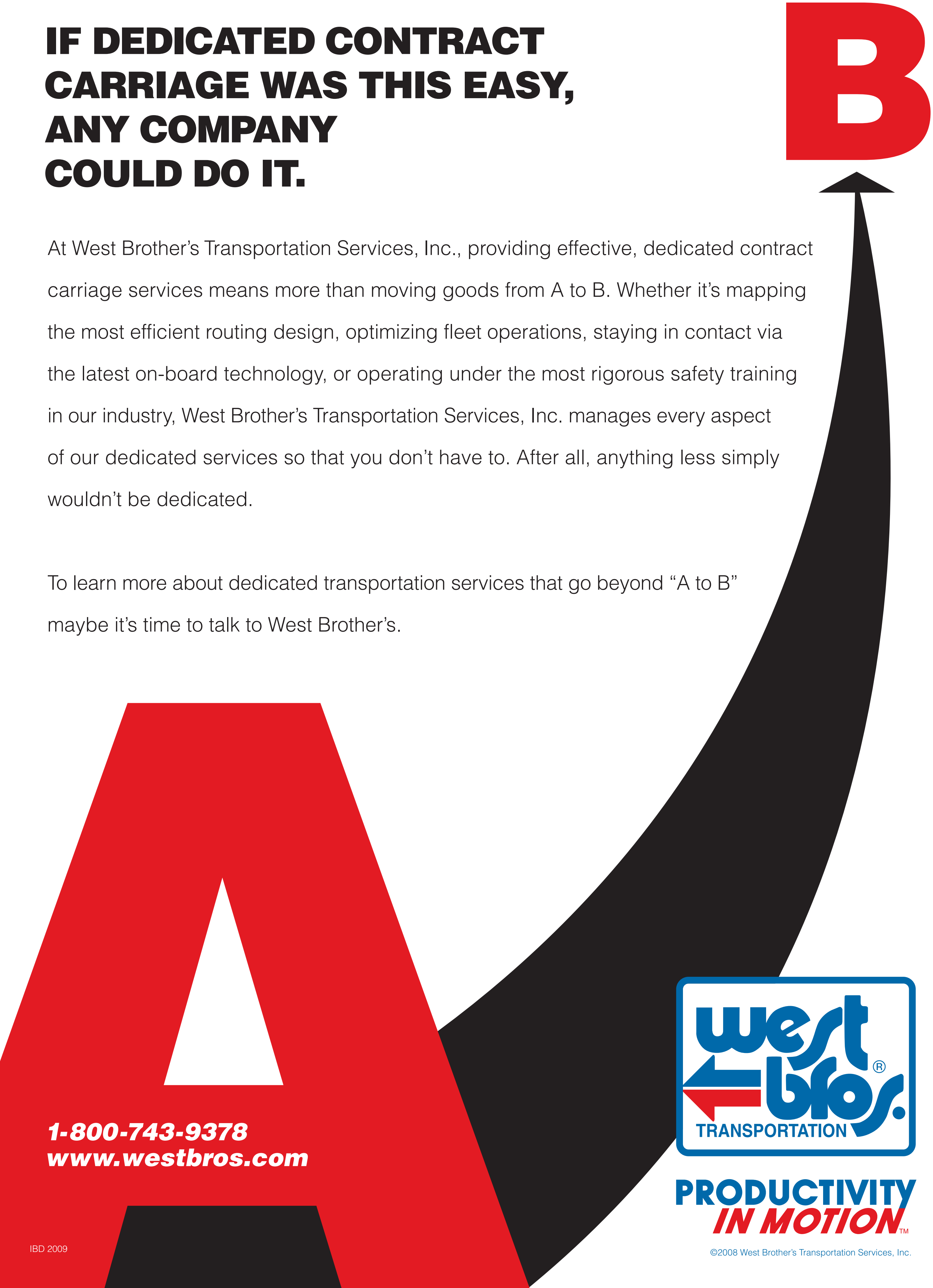

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ECODEV

ISSUES AFFECTING | **ECONOMIC DEVELOPMENT**

by Rick Norment

Public-Private Partnerships Fund Progress

With credit harder than ever to get and Congress casting a sometimes critical eye toward public-private partnerships (PPPs), some say combining public and private resources for the public good has become outdated, if not obsolete. In truth, the use of PPPs and private sector resources to address our nation's public infrastructure needs continues to be strong and growing.

SHARING RISKS AND REWARDS

In a public-private partnership, a contractual relationship combines the two sectors' resources to meet specific public needs. This is not the same as privatization because the public sector retains a substantial level of ownership and control over the project. PPP members share both the risks and rewards of any given project.

Take a look at the supply side of the equation. In the current environment of concern about putting capital at risk, private investment in public infrastructure represents one of the safest investments available. The return on investment is more predictable than many other types of investments–while the return may be lower, so are the risks. This is why retirement and pension funds are significantly increasing their investment in infrastructure projects. Recent articles in both the *Wall Street Journal* and *The Bond Buyer* note a marked increase in investing in infrastructure projects through PPPs.

Granted, investors are more cautious than in previous years. They are taking a closer look at the underlying economics of each project, but despite this hurdle, investments are continuing.

Another shift in the investment pattern is an increasing move to equity positions instead of debt. The bottom line: the best estimates now available show sufficient funds in private investment portfolios to support $200 billion in infrastructure projects.

WHERE THE HELP GOES

On the demand side of the equation, there is obviously no shortage of needs. The problem is compounded by the diminishing resources available from the public sector. All levels of government–federal, state, and local–are experiencing significant budget shortfalls.

At the same time, the demand to address aging water/wastewater systems, traffic congestion, and new energy projects continues to mount. The backlog of infrastructure maintenance and capacity expansion needs totals more than $1 trillion. While governments can and should answer part of this problem, PPPs provide a way of stretching the public's limited resources to meet a broader range of public needs.

PARTNERSHIPS AT WORK

The successes of some recent, major PPPs illustrate how well this approach can work. The Indiana Toll Road lease deal, for example, provides for 75 years of investment returns for its private sector partner. At the same time, the state of Indiana now has $3.8 billion (plus an additional $500,000 per day in earned interest) to bring its ailing infrastructure up to a good state of repair. In fact, Indiana is the only state with a fully funded transportation investment program.

Even though lenders now scrutinize each PPP project far more closely than in the past, adequate funding is available for many infrastructure projects. With the growing number of positive results, it will be no surprise to find PPPs funding public infrastructure projects in the years to come. ■

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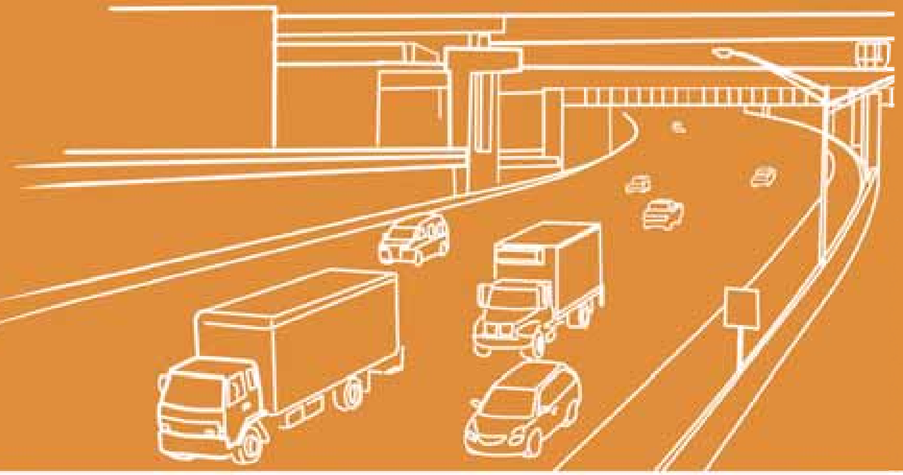

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VIEWPOINT

by Joe Manone

Unloading Trouble at the Loading Dock

Most or all of a shipper's inventory eventually passes through the loading dock, so it's essential that the area be configured correctly. Two common loading area problems are inadequately sized dock openings and rough terrain around the dock area. Where either of these conditions exist, load damage and costly delays are likely to occur. Understanding the scope of the problem is the first step to eliminating it.

SQUEEZES AND BUMPS

A number of factors can result in awkward and insufficient access to trailers. First, trailer manufacturers have increased their products' size to enable more capacity per trailer. Many of these larger trailers, however, are too big for existing loading dock openings.

In addition, lower trailer beds create more space inside a trailer, but can cause a misalignment with the dock. As a result, pit walls and dock equipment–door tracks, bumpers, and foam dock seals–encroach on the dock opening.

The tight fit often blocks access as forklifts struggle to reach end loads, causing product to knock against obstructions and be crushed. In some cases, damage to the load occurs when the forklift backs out of the trailer and meets the immovable pit wall. Workers may then have to move the cargo by hand, which creates delays.

Plenty of obstacles lie between the warehouse floor and the trailer bed. Forklifts feel every bump and gap along the way, and steep slopes and extreme angles into the trailer can be difficult to navigate. The elements can also create complications. Rain or snow inside a dock creates slippery conditions and can result in wet, unsaleable product.

Once the forklift arrives at the trailer, there's still opportunity for load disturbance. An air-ride-suspension trailer can bounce as high as six inches when a forklift enters and exits. All this movement creates the potential for products to find their way off a pallet and into the return-to-sender bin.

These mismatches and bumpy terrains equate to damaged goods arriving at the receiving dock. Damaged products are typically returned to sender, creating waste and expense. Total unsaleable warehouse-delivered consumer packaged goods (CPG) across all distribution channels cost the CPG industry $15 billion last year, according to a 2008 report issued by the Unsaleables Leadership Team and its sponsors, which include the Food Marketing Institute and Grocery Manufacturers of America.

SOLUTION CHECKLIST

Fortunately, the process of eliminating problems at the loading dock is straightforward. To get started, ask your plant engineer or warehouse manager whether operations flow smoothly, or whether the dock opening is a source of pain.

If it is a pain point, assess your dock design and equipment. Make sure the loading area meets the following criteria:

- Dock levelers are the correct width and length.
- Levelers and restraints are designed to smooth the transition between the warehouse and the truck.
- Hydraulic dock levelers are used instead of manually operated units.
- Full-access environmental enclosures or rain-diverting header seals are installed.
- Doors are properly sized.

If you still have a dock problem, consult a loading dock design expert to demonstrate how an upfront investment can quickly make up for losses that result from reverse logistics and delays. ■

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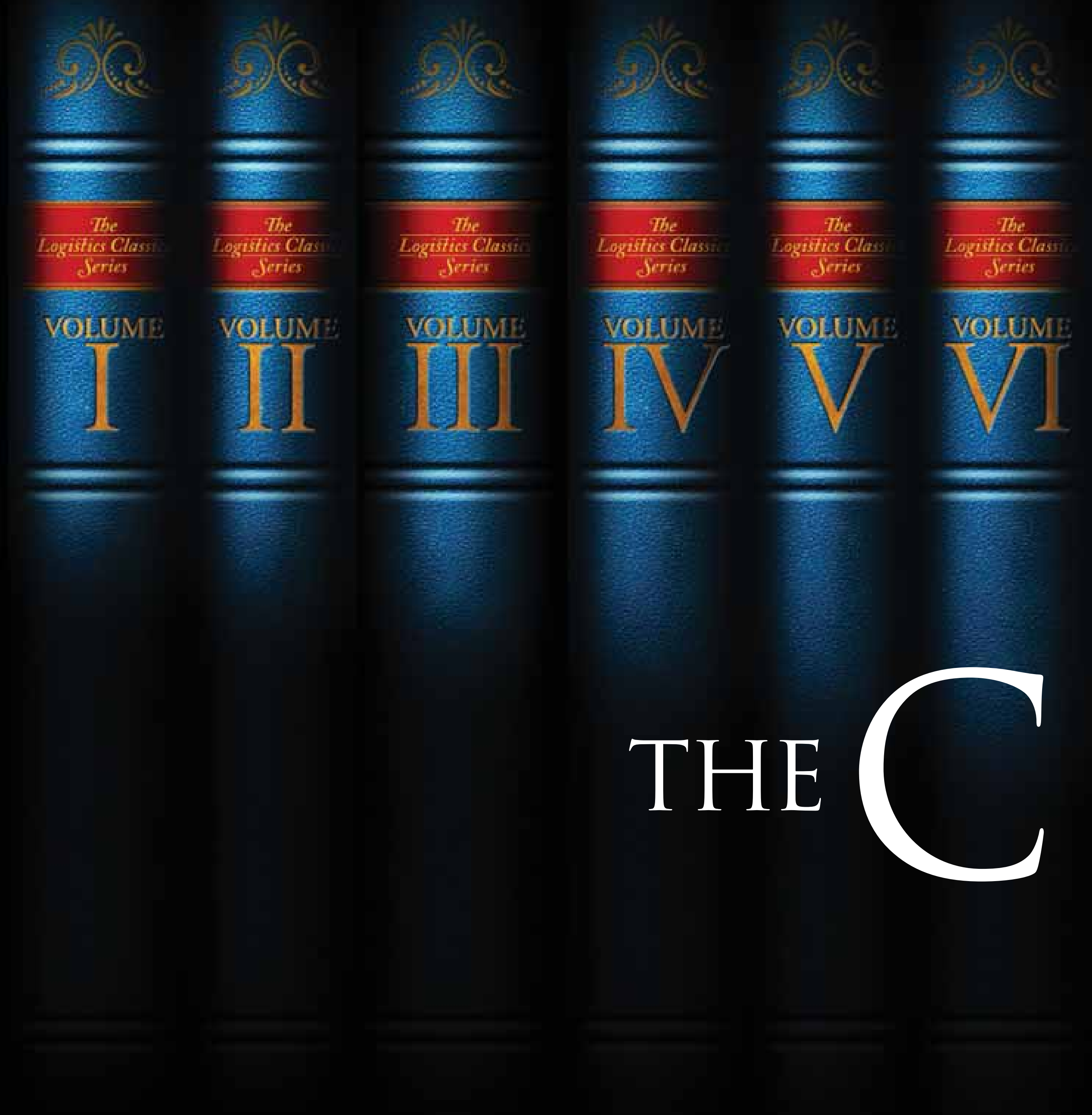
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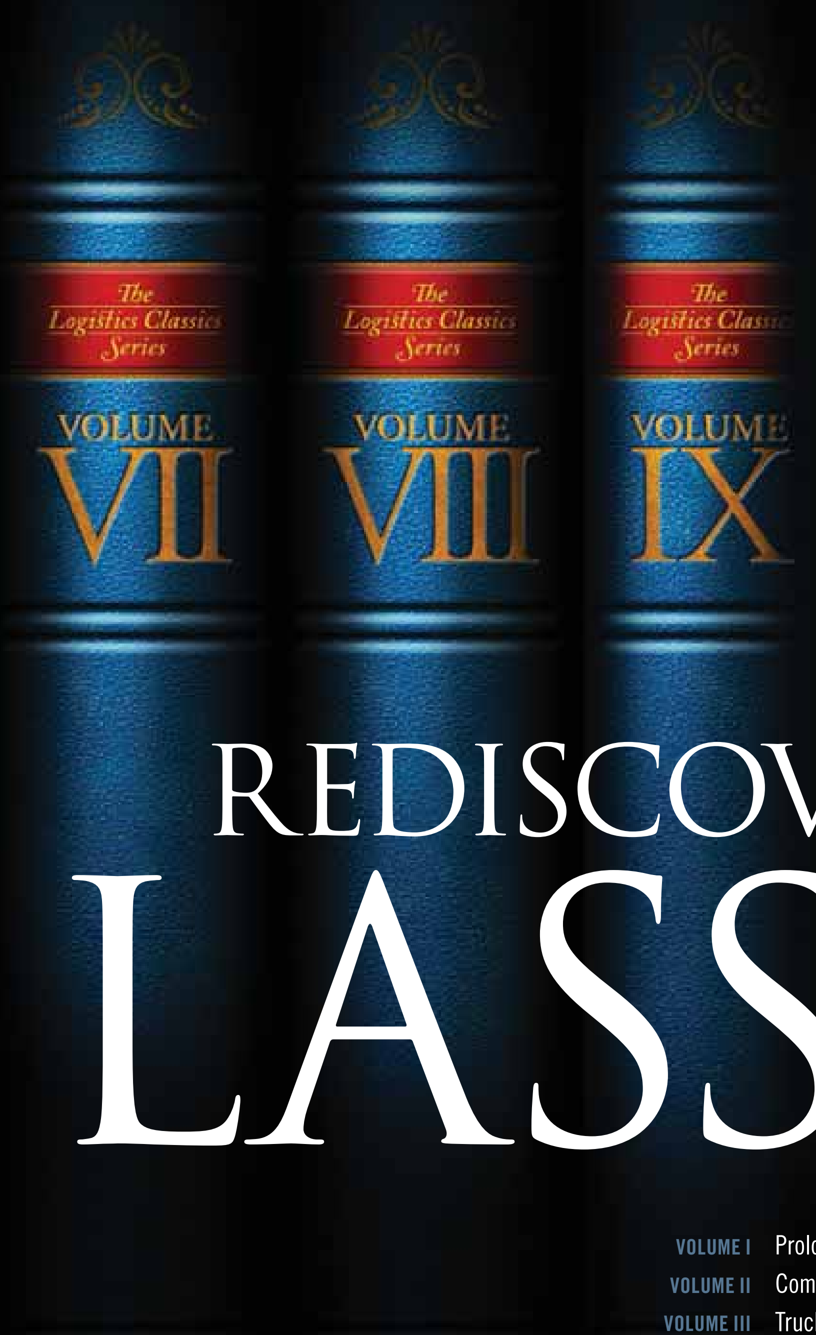

Logistics fundamentals are oft cited but more often overlooked or misread. Mastering these basics builds a foundation for supply chain sophistication. So grab your slippers, pull up a chair, and stoke the fire – get comfortable. Join us as we retire to *Inbound Logistics'* library of logistics best practices and dust off some classics.

REDISCOVERING LASSICS

BY JOSEPH O'REILLY

OFF THE SHELF

TIMELESS TACTICS FOR CHANGING TIMES

SOMETIMES THE OBVIOUS IS OBSCURED BY THE ORDINARY. THE RITUAL OF PERFORMING DAILY TASKS LEAVES LITTLE TIME TO SEE ROUTINES FOR WHAT THEY REALLY ARE–A SERIES OF INTERACTIONS THAT, IN SUM, PRODUCE LITTLE VARIATION, BUT APART, YIELD WORLDS OF DIFFERENCE.

Today's businesses are no less disposed to these arcane "forest for the trees" realities. Supply chains are inherently in flux, but logistics functions are equally fixed. While consumer and order fulfillment variability waxes and wanes, trucks need to be filled. Warehouse staffing is temporary, but forklifts are forever. Supply chain partners come and go, but core carrier partnerships are always in vogue.

Companies are challenged to see the extended enterprise for all its individual parts. Circumscription helps realize functional synergies and drive visibility, but often at the expense of reducing focus on core logistics operations.

With so much consideration and capital paid to end-all technologies and end-to-end strategies that carry great expectations–and far greater frustrations–basic tenets of transportation and logistics are lost in the shuffle and scrape of supply chain routines.

As a modest proposal, this year's *Logistics Planner* issue revisits classic principles of transportation and logistics. Taking lessons from the past and engaging allegories of the present, *Inbound Logistics* serves up a sentimental education in logistics best practices that embraces functionalist and revisionist approaches alike.

Given current difficulties, supply chains are ripe for introspection. Executing on strategy alone to reduce costs can be an exercise in futility. Alternatively, businesses can learn anew by seeing the supply chain through its many functional looking glasses, not in spite of them.

From transportation fundamentals to warehousing standards, and all touches between, businesses are discovering, and re-discovering, classic approaches for managing their supply chains.

Supply chain management is a modern odyssey, replete with visionary strategies, wanton technologies, and Homeric aspirations. But logistics is Aristotelian to the core, rational and calculating in rooting out problems, prescribing solutions, and efficiently matching demand to supply.

What makes these fundamentals unique is their capacity to affect immediate change at a very micro level, and catalyze sweeping and sustaining transformations elsewhere in the supply chain.

Timeless practices never lose their luster, but an occasional polish can greatly enhance their value.

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GREAT EXPECTATIONS

COMMITTING TO CORE CARRIERS

ROMANCING LOWBOYS AND SPREAD-AXLE HOTSHOTS MIGHT NOT SOUND APPEALING, BUT DEVELOPING UNCONDITIONAL RELATIONSHIPS WITH CORE CARRIERS REAPS LONG-TERM ADVANTAGES.

Core carrier programs capitalize on matching a ratio of trucking partners to shipment volumes, based on pre-determined service and pricing coefficients.

When the trucking market is squeezed, businesses use these partnerships to find capacity; when demand is down, a close-knit network of carriers helps rein in costs and maintain service expectations. Regardless of market flux, businesses leverage core carrier programs to consolidate and strengthen transportation operations while harnessing greater control over freight spend and vendor compliance.

Maintaining a stable of preferred carriers for specific lanes, points of origin, and niche service capabilities is an essential best practice that requires consistent evaluation. Trucking companies frequently look for new business and shippers regularly measure carrier performance and competitiveness to find the best partners.

Building long-term relationships with proven service providers allows businesses to mediate market and economic cycles, negotiate better rates, enhance flexibility, and create a cohesive and robust transportation network that drives value to the enterprise and its customers.

Helping companies build and manage core carrier programs is what Lakeshore Logistics does. The Broadview Heights, Ohio-based transportation management company started up operations in 2002 to help small- and medium-sized businesses manage the complexity of their transportation networks.

"There was a huge need for supply chain management capabilities that addressed small company needs," says Ed Caruso, president and co-owner/founder of Lakeshore Logistics. As one of its primary functions, the transportation management company helps customers leverage core carrier programs to reduce costs and improve service.

"Customers generally come to us with a compelling event," says Caruso. "They may wonder why they pay $1.4 million in annual transportation costs. Or, business is booming and volumes are up, so they're looking to be more efficient to support new growth. Perhaps one of their carriers went out of business."

Kichler Lighting experienced its compelling event in 2002, when the freight bill audit company that was helping manage some of its transportation requirements went out of business, leaving carriers unpaid. So the company

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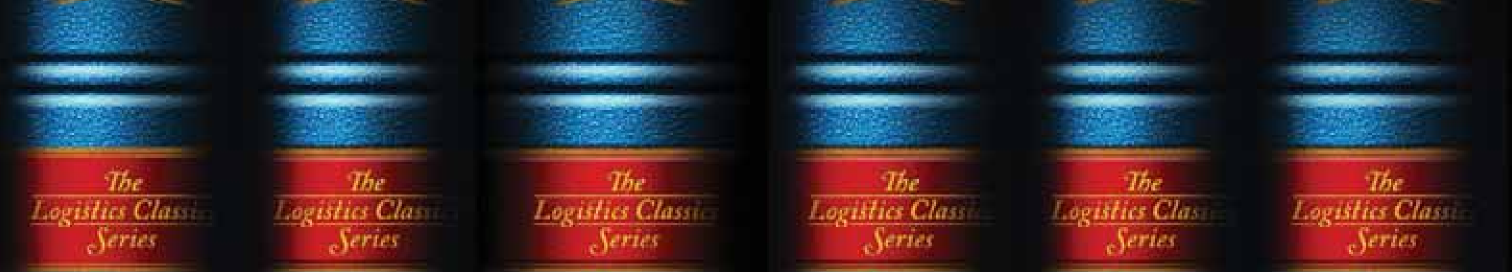

> “Change is difficult for organizations and virtually impossible in logistics.”
>
> –**Ed Caruso,** president and co-owner/founder, Lakeshore Logistics

began working with Lakeshore Logistics to manage its transportation.

As a designer, manufacturer, marketer, and distributor of decorative light fixtures, lamps, and home accessories, Cleveland-based Kichler has always used outside help to manage its freight network. It sells to a variety of customers, including big box retailers, electrical distributors, retail lighting stores, catalog houses, and landscape contractors.

Kichler relies on Lakeshore Logistics to gather and review a laundry list of metrics, gauge performance, maintain data, and offer assistance when negotiating with carriers. Dan Speck, Kichler’s director of distribution, keeps a direct line of communication with his fleet of core carriers.

Designing and manufacturing decorative home light fixtures and accessories is Kichler Lighting’s core competency. So the company relies on its third-party partner, Lakeshore Logistics, to optimize and manage its core carrier program.

The company currently uses 10 preferred trucking companies, based on origins, service lanes, and “what they do well and what they don’t do well,” according to Speck.

“Our core carriers are an extension of Kichler,” he says. “Because they deliver the ball the last yard they leave an impression with our customers. They are a reflection of our company.”

Accordingly, they are held to certain standards. Having a core carrier program in place helps Kichler manage requirements against actual performance.

Holding core carriers to expectations is a self-regulating process, adds Speck: “If one month passes and a partner doesn’t meet performance metrics it raises an eyebrow; if it happens over two months I’ll talk with the carrier; and if it continues for three months, I’ll ask for a corrective action plan.”

Demanding this level of commitment, and building these types of relationships, compels carriers to go the last mile in making sure they are performing up to par, and often beyond what is expected.

“I maintain consistent relationships with my carriers and their reps; there isn’t a great deal of change,” says Speck. “If a problem arises, they will go out of their way to meet with my customers to find out what’s going on.

“I could find less-expensive carriers in every lane, but they probably wouldn’t provide the level of service and reliability we demand,” he adds. “We have to pair our needs with their abilities.”

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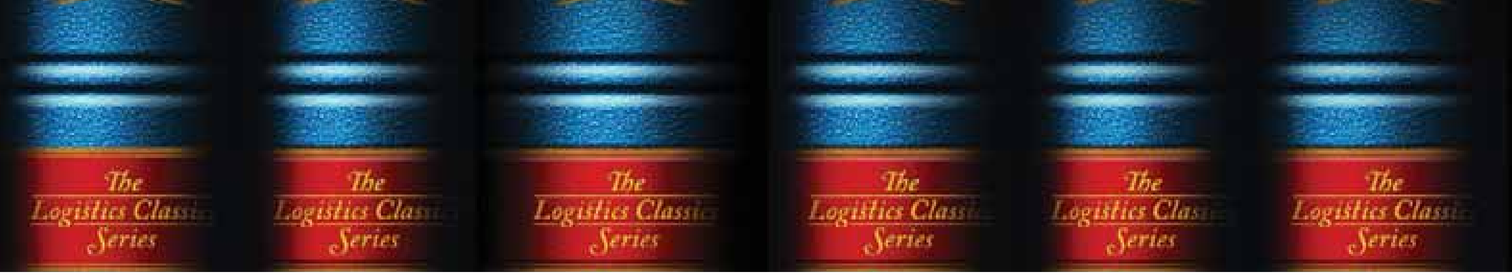

Operating a core carrier program can greatly simplify perceived complexity, or massage lack of visibility, merely by eliminating options. "If Kichler has a shipment moving to Texas, it can only be on one of two carriers. A core carrier program limits its choices–half a dozen versus infinity," Caruso explains.

This level of information and communication, however basic, permeates the company, breaks down walls, and foments collaboration and efficiency. Everyone–from marketing and sales to customer service–knows which carrier is delivering product in a specific lane or area.

Working with a group of known carriers and agreed-upon freight rates can help sales reps when they are breaking out costs for customers. The same consistency applies to freight bill auditing.

"If a company is working with multiple carriers and multiple discounts, rate base levels, and rules of engagement, it will not be pricing accurately," says Caruso. "The time it takes to gather and calculate the right information is prohibitive."

Pricing inconsistencies may be frustrating for customers, but poor service is often a test of patience, with terminal consequences. When different carriers transport product to the same customer, a standard of expectation cannot be set. The end user's needs become muddled among different service providers.

As an example, customers experience major problems if deliveries aren't consistent, and shipments are coming into DCs at varying times.

"If a company recently scaled back warehouse labor to reduce costs, then schedules staff to receive expected shipments, they will not be happy with inconsistent deliveries," says Caruso. "A core carrier program manages to this minute level of detail."

Kichler can appreciate the fact that Lakeshore Logistics has the bandwidth to parse out the singular expectations of the company's many customers–and those same end users value the reliability and consistency of Kichler's carrier partners.

"Consistency and performance means money to our customers," says Speck. "That predictive knowledge allows them to staff up accordingly, and notify customers when shipments will arrive."

> "Our core carriers are an extension of Kichler. Because they deliver the ball the last yard, they leave an impression with our customers. They are a reflection of our company."
>
> –**Dan Speck**
>
> **director of distribution,** Kichler Lighting

Given the seminal importance of core carrier programs, especially as sensitivity to transportation costs intensifies, it's imperative that companies consider, or reconsider, their trucking options. Corporate bureaucracy often obviates the importance of transportation and the need to cull and coordinate carriers to be more efficient.

"Some companies don't appreciate the value of transportation and logistics," says Caruso. "Either they don't know the value or the entire company doesn't embrace these functions."

Competition for business is ongoing, as carriers are always on the make. "They're on the outside looking in and they want your business; they want to be your partner," he explains. "A killer price can quickly pull business from another carrier."

Many companies have similarly augmented their reliance on brokers to find carriers that best meet their needs. When capacity is tight, shippers leverage freight brokers and their depth of resources and visibility to find space. Fluctuating fuel surcharges and transportation costs are increasing pressure on companies to save money, and driving them to keep shopping around for more competitive rates.

Chasing price discounts creates a dangerous cycle that is difficult to break and has dire repercussions–especially when service discrepancies leave enduring scars and carriers are bound to hold grudges when freight volumes pick up.

This continuous salesmanship on the part of carriers, and shippers' failure to appreciate the true value of transportation and the merits of long-standing partnerships, are obstacles to change.

"Change is difficult for organizations and virtually impossible in logistics," observes Caruso.

A commitment to building core carrier alliances, however, can educe change. For example, businesses that negotiate competitive rates with their partner carriers, and hold vendors in compliance with inbound routing guides, can wield far greater control over transportation decision-making deeper in the supply chain, thereby unbundling transportation costs, reducing spend, and increasing visibility.

Alternatively, core carrier programs can also help companies mediate change, particularly when it comes to demand and supply volatility.

"When capacity got tight on the LTL side, we were not greatly affected, largely because of our core carrier partners," says Speck.

One fundamental benefit of core carrier programs is that setting expectations and holding partners to agreed-upon

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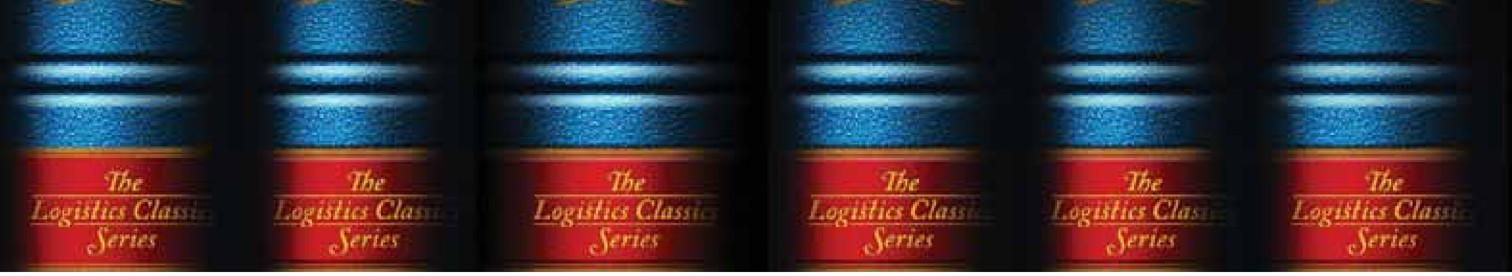


service requirements creates demand within the network. This competition forces carriers to compete for status.

Kichler uses two carriers–one primary and one secondary option–to cover each lane. "I split the business between two national LTL carriers, and I always have the option to steer more business one way or the other. The carriers know that," explains Speck.

Building competition into the program drives economy as well. For example, Kichler can benchmark carrier rates against each other and negotiate accordingly.

"Even though they are our preferred partners it doesn't mean we don't negotiate," says Speck. "There are trade-offs."

In fact, this mutual understanding between Kichler and its carrier partners underpins more productive negotiations.

"If we marry the needs of both companies together, where can we go? It's much more difficult to ask this question when you are competing for business and new carriers all the time," Speck says.

"The trick is finding carriers that want to serve a lane," he adds. "When you can give them what they want, and they can meet our requirements with good service and rates, that's the advantage."

Contrary to the concept, core carrier programs are not without flux. As an example, a partner recently told Speck it didn't want to honor a predetermined fuel surcharge agreement–and it wouldn't budge. So Kichler replaced it with another trucking company.

"Over the last six months and in the next six months, I will probably drop two carriers and add three to my core group. It's not a constant churn, but if they give me a reason to look elsewhere I will," says Speck.

These occasions are anomalies, especially in today's market where carriers have little leverage to be selective. Often, the idea of being part of a select group of trucking partners is incentive enough to stand out among the crowd. In this sense, conformity forces proaction.

"Carriers know their on-time performance thresholds and if they think a move will be problematic, they notify us before it happens," says Caruso.

The routine of using a core group of carriers ultimately makes for better service and more competitive pricing. When everything else is variable, an unwavering commitment to building long-term carrier partnerships can have a stabilizing and sustaining influence on the enterprise.

With continuous oversight and communication, shippers such as Kichler are reinventing an old routine to optimize transportation management. ■

GETTING BACK TO BASICS:
Selecting Core Carriers

Maintaining a fleet of core carriers is as fundamental as transportation management gets. But relying on third-party partners to meet varying business needs as well as customer expectations is not without its risks. Companies that are diligent in vetting, then evaluating, carriers regularly can reap their core rewards. Here are six tips to help you choose the right core carriers.

1. Look at your business and break out your transportation needs in terms of geographic scope and service requirements – regional LTL versus national LTL, as an example. Make sure the carriers you consider have sufficient assets, labor, and capacity to match your requirements, especially during peak demand periods. Consider a mix of carriers with different capabilities and assets that cover all your service lanes. Having secondary options can create additional flexibility, drive internal competition, and serve as a benchmark for acceptable service and pricing.

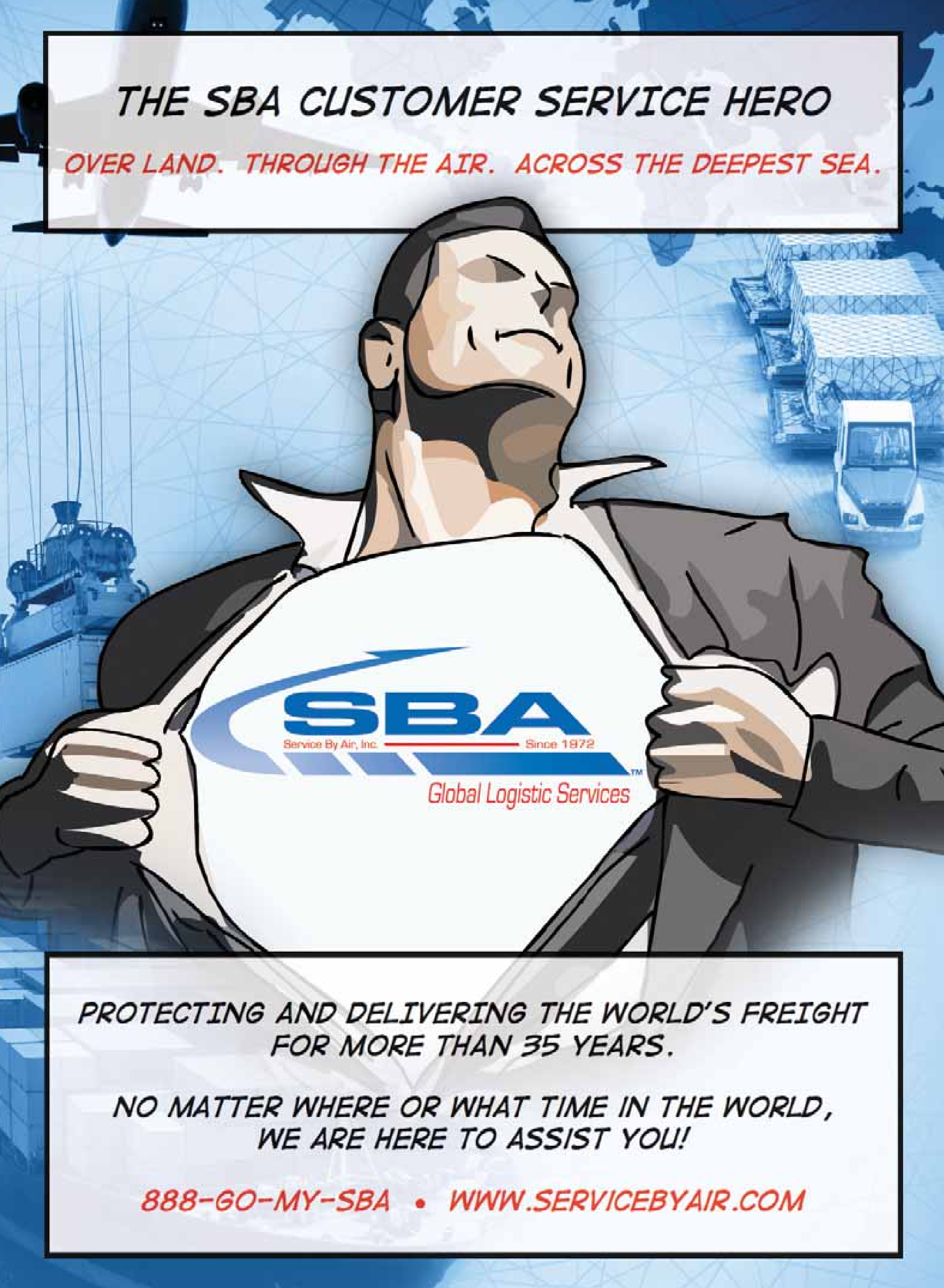
2. Perform a background check to make sure prospective carriers are financially stable and reinvesting in the business to maintain the quality equipment, current technologies, and well-trained drivers necessary to service your needs. Consider union status, and whether labor negotiations could impact operations. Ask for customer references, specifically shippers with similar business profiles.

3. Invite key customers into the vetting process to align their demands and experiences with your own requirements. Carrier partners are your front-line salesforce and customer service representatives so they ultimately reflect your brand – good or bad.

4. Check the carrier's quality service metrics, including performance criteria such as operating and claims ratio, and on-time delivery. If you find discrepancies, ask questions.

5. Make sure a prospective carrier has the technology to support your business in terms of online shipment tracking and visibility, e-mail alerts, Web pricing, billing, and claims reporting.

6. Look for a carrier that is willing to grow with your business and shows readiness and commitment to collaborate. Find examples where it has helped other customers manage exceptions, seek solutions, and drive innovation. The nature of core carrier partnerships does not preclude negotiating terms, so prospective partners should be open to engagement.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CHEAPER BY THE DOZEN

TRUCKLOAD CONSOLIDATION

IN THIS CLASSIC TALE OF ECONOMY BY SCALE, BUSINESSES TACKLE TRUCKLOAD SHIPMENTS HEAD-ON TO CAPTURE RETURNS IN COUNTLESS WAYS. THE MORAL? DON'T COUNT YOUR SHIPMENTS UNTIL THEY'RE MATCHED.

Building complete truckloads is a transportation best practice that nurtures efficiencies and economies in the best of times and the worst of times.

Converting less-than-truckload (LTL) shipments to full truckloads (TL) helps companies optimize and reduce transportation costs, rationalize asset utilization, and provide better service to end customers. Fluctuating demand, variable capacity, and speed-to-market requirements often challenge shippers to find economies of scale by consolidating freight. Pooling like shipments together en force can help mediate these same volatilities.

Fundamentally, consolidation drives simplicity and consistency. Companies often leverage this balance to underpin business process improvements that have far-reaching impact elsewhere in the supply chain. By merging shipments and delivering more frequent truckload volumes, shippers can increase turns and reduce inventory. This flexibility drives just-in-time, continuous flow strategies–from production to sale–allowing businesses to pull product at each pooling point and more efficiently match supply to demand.

Why drive alone when you can take mass transportation? The same theory applies to businesses sourcing transportation. Why have two trucks deliver half-full when one can carry the entire load?

Consolidating freight is a simple way for shippers to net considerable cost savings by finding a shared

network that meets their transportation requirements.

Bethlehem, Pa.-based Just Born, a family-owned candy manufacturer of cottage brands such as Peeps, Mike and Ike, and Peanut Chews, has been pooling freight with other confectionery companies for about seven years.

Just Born is among a handful of companies, including Topps and DeMet's Candy Company, that participate in the Candy Kane Consolidation program offered by Scranton, Pa.-based third-party logistics provider Kane Is Able. With the 3PL's oversight, confectioners partner to transport consolidated product in a climate-controlled environment to major retailers, food wholesalers, and consumers around the United States.

Load consolidation is far from novel. It became trendy in the 1970s when the LTL market was regulated, non-competitive, and therefore expensive, says Chris Kane, vice president of sales and marketing for Kane Is Able. Consequently, consumer product goods (CPG) companies built campuses to share warehousing and transportation resources.

In the 1980s and 1990s, as merger and acquisition activity picked up and TL volumes ran rife, many businesses began using large single-box warehouses to anchor their distribution networks.

Today, retailers and wholesalers are turning back the clock and turning to each other to more efficiently allocate and manage resources. Kane sees collaborative warehousing as the wave of the future as shippers and consignees look to reduce inventories. The same may hold true for collaborative transportation.

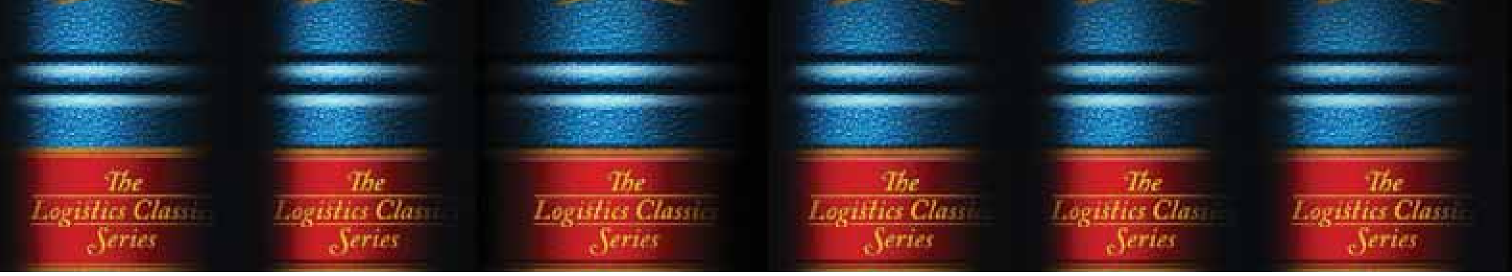
"Akin to European models, our customers demand more frequent deliveries, with more SKUs and fewer quantities, moving to the same retailer," he says.

In Scranton, Kane Is Able operates a three-million-square-foot campus with dedicated space for companies to hold and stage product for pool distribution.

"Most customers place inventory with us and we ship as demand dictates. Others work on a more demand-driven, JIT basis, and crossdock product into the network," he says.

Just Born and its confectionery pool partners exercise collective mindshare to capitalize on shared volumes and Kane Is Able's resources. More than anything else, the program allows the candy manufacturer to streamline its transportation needs.

"Load consolidation saves money in two direct ways: it improves TL utilization, resulting in lower costs per



shipment; and it converts LTL shipments into less-expensive TL shipments," says Alan Sargent, supply chain/logistics manager for Just Born.

Companies can reduce freight transport costs anywhere from 20 to 35 percent by converting LTL to TL, adds Kane. In terms of trailer utilization, Just Born has increased efficiency by 70 percent.

Beyond economy, working in a consolidation-minded transportation network allows companies to tap into a greater pool of carriers, which is critical when capacity ebbs and flows.

The confectionery industry presents unique transportation challenges specific to the shipments' sensitive nature. Temperature-controlled transportation is expensive and a robust national refrigerated LTL network does not exist to support broad coverage. Gathering critical mass among a local group of like companies serves a similar purpose.

While the value of consolidating shipments is inherently simple and patently clear, it sometimes invokes a latent fear that it means holding product until inventory builds up. For consignees with ultra-tight delivery windows, such infrequency would be intolerable.

Concerns about predictability and cycle time consistency also arise. If orders drop at the last minute, it is difficult to consolidate these anomalies with other products. Businesses that struggle with unreliable or infrequent deliveries, and lack upstream visibility, are circumspect about exacerbating existing conditions.

These apprehensions, however, are largely transparent. Working with customers, intermediaries, carriers, and other shippers to execute freight consolidation programs can often aggregate, then massage, some of these inventory and visibility inconsistencies, while uncovering other deep-rooted inefficiencies.

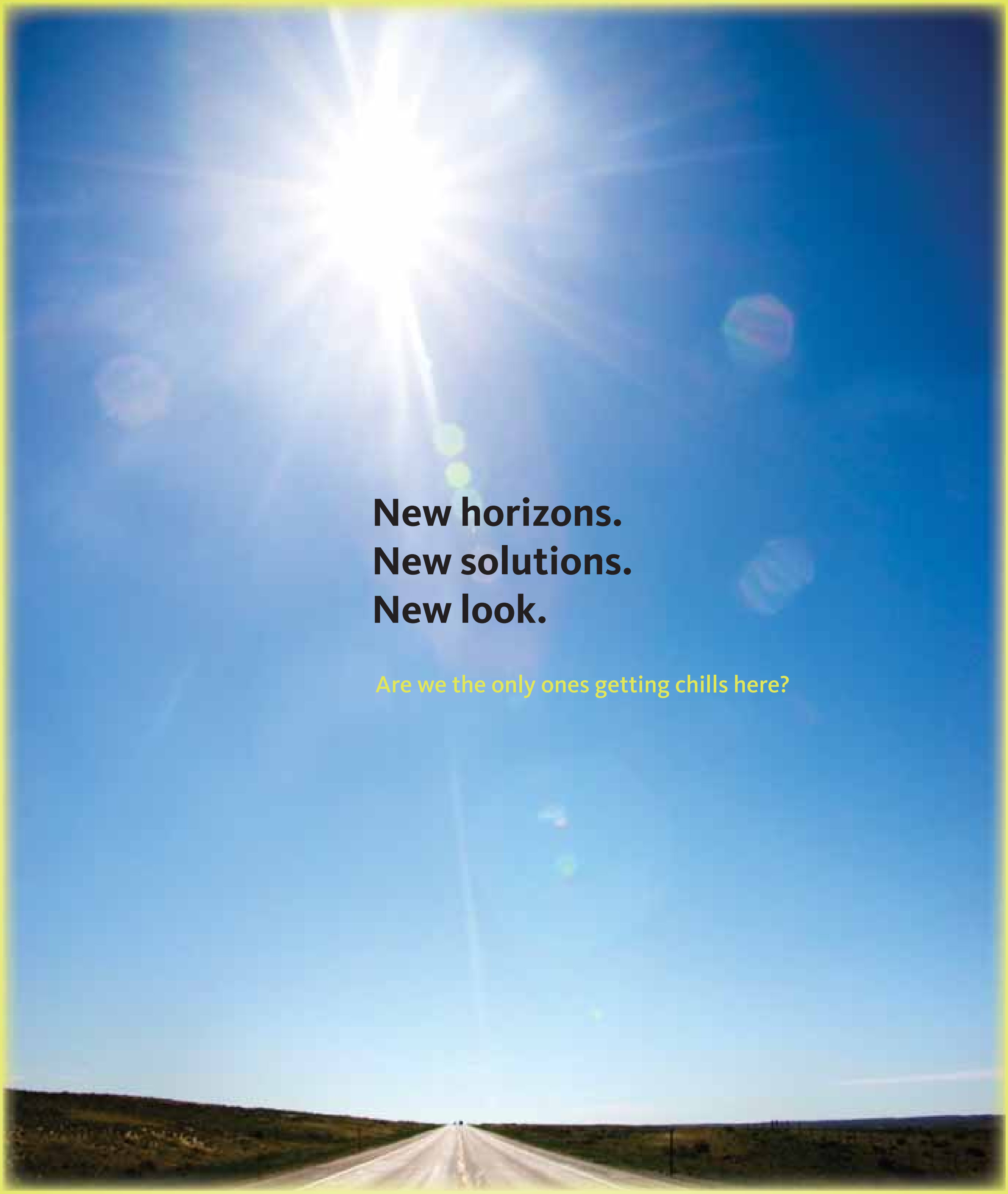

PARTNERING WITH YOUR PEEPS: Kane Is Able's consolidation program allows small candy manufacturers such as Just Born–famous for its Peeps, Mike and Ike, and Werther's Original brands–to pool freight with other confectionery shippers.

When C&M Foods, a Birmingham, Ala., company that distributes and sells marinades to retailers and wholesalers such as Walmart and Kroger, first explored the idea of freight consolidation with CaseStack, a Santa Monica, Calif.-based 3PL, there was some inertia.

"We were not sure if we would benefit," recalls David Bell, president of C&M Foods. "But after CaseStack analyzed our freight volumes from previous years, the decision to consolidate became a no-brainer."

At the insistence of one of its major customers–Walmart–and with assistance from CaseStack, Bell revamped the distributor's tactics for sourcing freight.

When an order came in, C&M would call three freight companies to get rates, which proved to be a haphazard way



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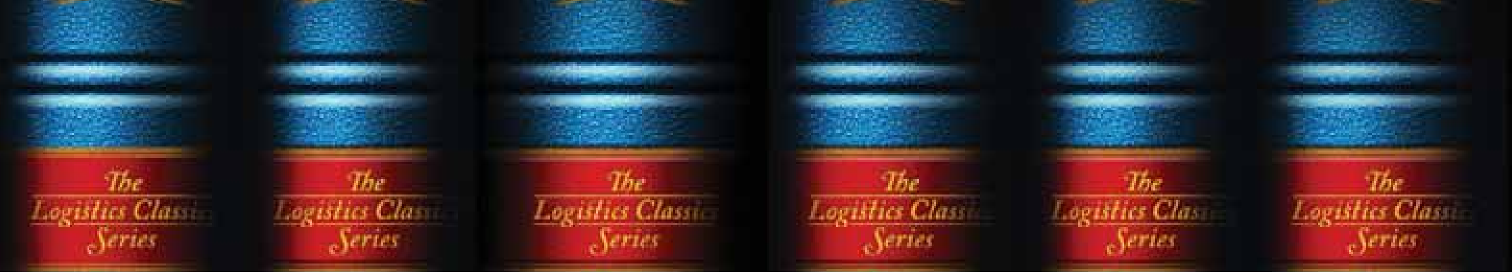

"Load consolidation saves money in two direct ways: it improves TL utilization, resulting in lower costs per shipment; and it converts LTL shipments into less-expensive TL shipments."

—**Alan Sargent,** supply chain/logistics manager, Just Born

to cost out transportation. Walmart's preference for full truckload shipments presented another challenge for the small company because it rarely had sufficient capacity to ship more than LTL.

"During the peak holiday season, a tremendous volume of shipments moves into Walmart's warehouses," Bell says. "Our LTL loads took a back seat to TL freight, and sometimes took days to deliver."

Adding further insult to inequity, C&M would often incur extra charges for these late deliveries.

With the help of CaseStack's retailer-driven consolidation program, C&M simplified its transportation operations, complied with Walmart's directive for TL shipments, and now delivers similar value to other customers.

The company currently distributes products from CaseStack's Texas, California, Georgia, Illinois, and Pennsylvania locations, thereby extending its national reach while capitalizing on greater economies of scale.

"We used to ship out of our packing facilities. Co-packing partners would make a large run all at once and inventory would sit in storage for a while," says Bell. "Now, with a more just-in-time frequency, our marinade products are much fresher. They get to store shelves in four weeks, and sometimes as fast as two weeks during the peak summer season."

Instead of creating product for storage, C&M Foods matches product to demand, proactively monitoring inventory levels at CaseStack's five warehouses.

"The load consolidation program has helped us manage inventory more effectively," Bell explains. "We used to hold upwards of 10-week inventories; now we work with a four-week stock."

Aside from transportation cost efficiencies, leveraging CaseStack's capabilities empowers C&M Foods to reallocate resources to better manage inventory and improve its own business.

"Bringing in a freight consolidator allows us to focus on creating and marketing our products," Bell says.

Finding peer and third-party partners that can execute consolidation programs demands willingness to collaborate and explore a common good. Smaller and sometimes competing companies can work together to be more competitive within a broader space.

Kane Is Able's consolidation program includes six small Pennsylvania confectioners. Coordinating a system that manages each partner's asset needs and customer delivery requirements warrants organization and commitment, much of which the 3PL supports as the architect of this unique arrangement.

Specifically, pooling freight places a great deal of pressure on driving visibility into forecasting and demand so that vested partners know what their needs are and can plan ahead.

"Successful pooling or consolidation requires a higher level of customer, manufacturer, and carrier communication than single shipments from one manufacturer to a customer," says Sargent. "Joint understanding of order lead times, required delivery dates, specific customer requirements, and EDI transactions is a must."

While organizational hubris can ambush attempts at collaboration, the potential rewards are considerable. The bargaining play small companies wield, beyond what they could achieve on their own, helps mediate marketplace fluctuations as well as support broader corporate and supply chain efforts.

"Participating in Kane Is Able's load consolidation program helps Just Born offset some increased costs associated with smaller and more frequent customer orders, fuel and oil expenses, and higher freight rates," explains Sargent.

In line with C&M Foods' example, end customers are welcome beneficiaries, too. Holding vendors in compliance to specific transportation requirements, be it a preference for TL shipments or specific carriers, helps

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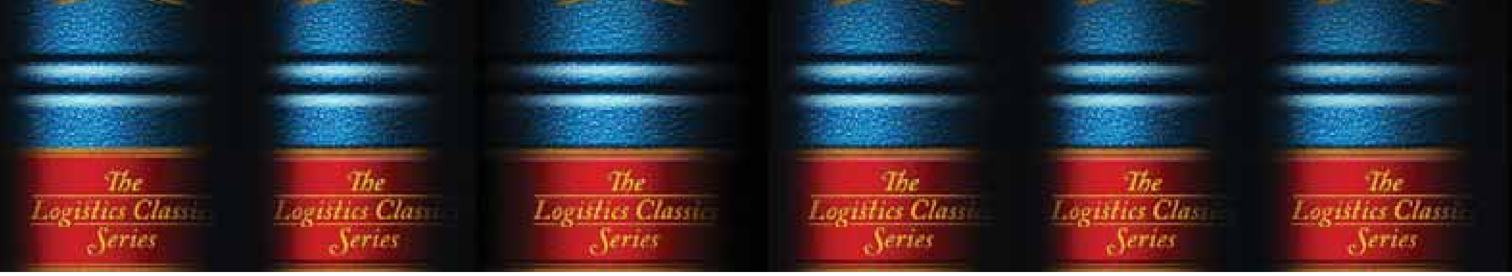

them meet their own inventory replenishment needs.

"The program gives Just Born and other shippers a customer service advantage by increasing the number and frequency of our collective shipments to specific customers or regions of the country," adds Sargent.

Shippers can leverage incremental tonnages and amplify shipment frequencies into specific regions, from one or two times a week to four, if necessary.

Buyers are equally engaged in supporting their vendors' delivery needs. Kane recalls a small consolidation client reaching out to a customer to see if it could realign delivery schedules and seize an opportunity to consolidate freight and reduce costs.

"Retailers know there is value in consolidation. From a scheduling perspective, TL is more reliable than LTL," he explains.

As with other logistics fundamentals, embracing load consolidation as a best practice invites other opportunities to affect change–sometimes to the point of breaking out shipments even farther downstream to reap economies of scale.

For single-source manufacturing facilities and networks, certain-sized orders can be consolidated into TL for direct delivery to customer. Elsewhere, small orders can be drop-shipped at a pool point for consolidation before delivery to the customer.

Within Kane Is Able's regional consolidation program, Just Born merges direct customer shipments from Pennsylvania to customers nationally.

"The program enables us to ship consolidated loads of small and medium-sized orders (less than 5,000-pound shipments) to a network of regional consolidators located in multiple markets all over the country," explains Sargent. "These regional consolidators aggregate small and mid-size shipments from various manufacturers and execute the local and/or regional deliveries."

Just Born has even consolidated pool points, paring down its network of regional distributors from 28 to 22.

Small manufacturers such as C&M Foods and Just Born can tap consolidation programs to achieve economies of scale by moving more truckload volume. Pooling freight also gives them leverage when competing against larger companies.

Alternatively, businesses can use freight consolidation networks and third-party consolidators to help scale growth by matching demand to resources. More volume in the system creates exponentially greater opportunities to build full truckloads, and deliver shipments more frequently.

Kane Is Able, which serves other CPG consolidation customers outside the candy space, has also added food companies into the mix where product characteristics and transportation requirements are similar.

"There is the potential to combine air-conditioned shipments of confections with ambient, dry goods. In most cases, this is less costly than shipping the dry goods through a national LTL provider," explains Sargent.

Whether businesses are scaling supply to demand or balancing growth or reduction options against available resources in a shared transportation network, consolidation programs tap the collective whole to optimize the individual parts. Be it shared pain or shared gain, businesses are finding greater strength in numbers. ■

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AS YOU LIKE IT

USING INBOUND ROUTING GUIDES

ALL THE SUPPLY CHAIN'S A STAGE SO WHY NOT COMMAND TOP BILLING? WHEN BUSINESSES ACTIVELY ENFORCE INBOUND ROUTING GUIDES AND DICTATE SHIPMENT INSTRUCTIONS, EFFICIENCIES FALL INTO PLACE AND ECONOMIES RUN WILD.

Ensuring vendors comply with your transportation requirements is as simple as putting instructions in writing. That's why a routing guide is an essential tool for businesses seeking greater control over transportation decision-making upstream and downstream in the supply chain–and why failing to use one is a fundamental mistake.

With so many external factors beyond the control of consignees and their extended supply chains, making vendors responsible for using (or not using) preferred transportation carriers or shipment instructions is a basic practice that yields tremendous value.

An inbound routing guide is a standard operating procedure for how supply chain partners transact business. From broadly outlining transportation preferences between origin and destination to dictating specific routings and carriers, documenting preferred rules of engagement can uncover measurable supply chain economies and efficiencies.

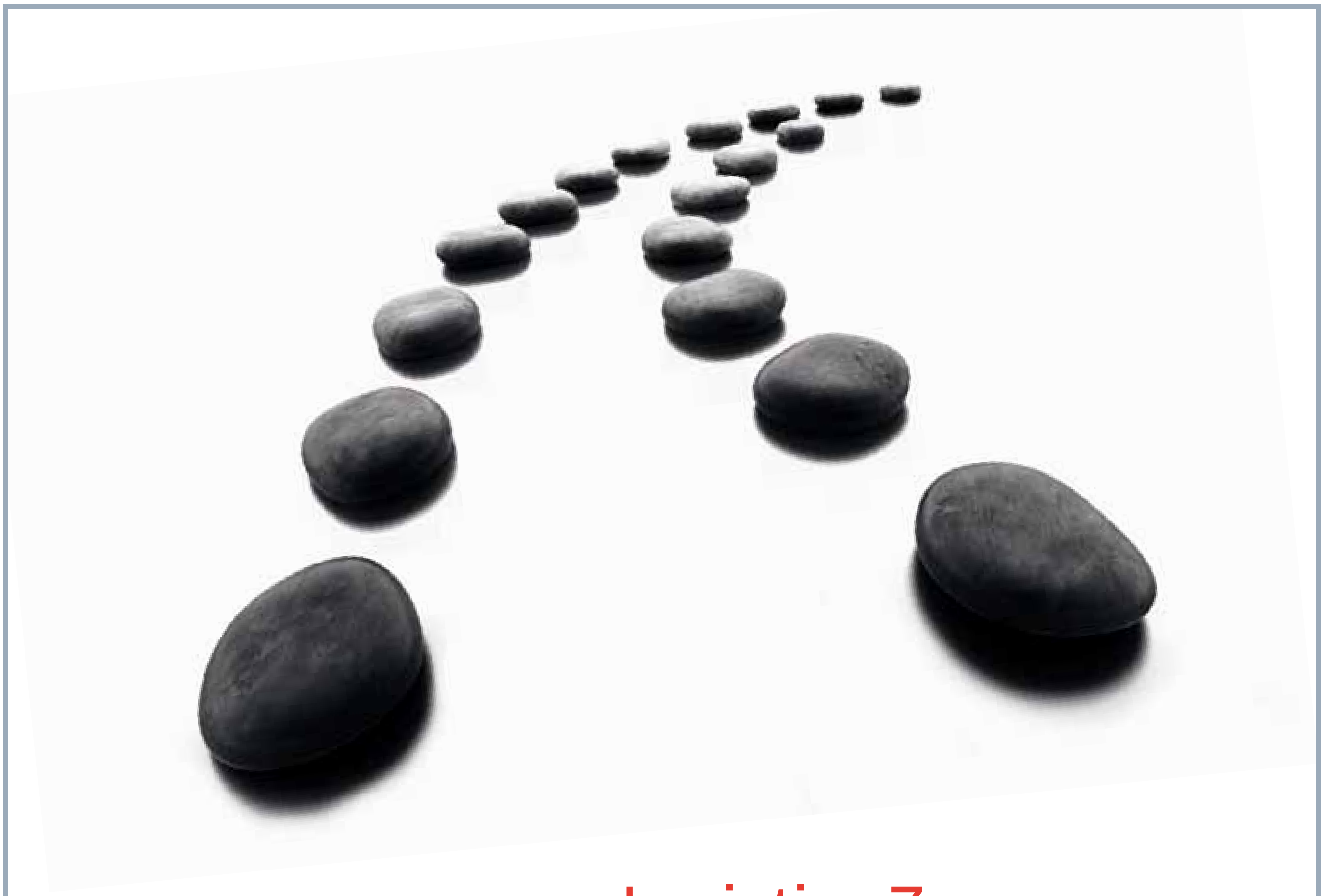
"If we think of the routing guide in terms of a document that explains 'how to do business with me,' it becomes the tactical expression of policies and instructions that might be considered minutiae in a business contract," says Kerry Loudenback, vice president of sales for TransportGistics.

The Bohemia, N.Y.-based supply chain application services provider works with manufacturers, retailers, and distributors to hone the finer points of transportation decision-making. Its proprietary solution, RoutingGuides.com, is a Web-based Software-as-a-Service (SaaS) application that aggregates and distributes transportation guides among trading partners and internal constituents.

An inbound routing guide plays a practical, rudimentary role in transportation planning and management. Companies that negotiate carrier contracts in specific lanes and areas of origin, or for specialized shipments, can leverage these favored partnerships and rates to dictate "who's moving what, when, where, and how."

From a financial perspective, aggressively negotiating competitive rates among carriers is important; holding suppliers to these rates is essential.

"When policies and instructions are published through a routing guide, the transport team has the means to drive traffic to their preferred low-cost carriers, reducing overall cost," says Loudenback.



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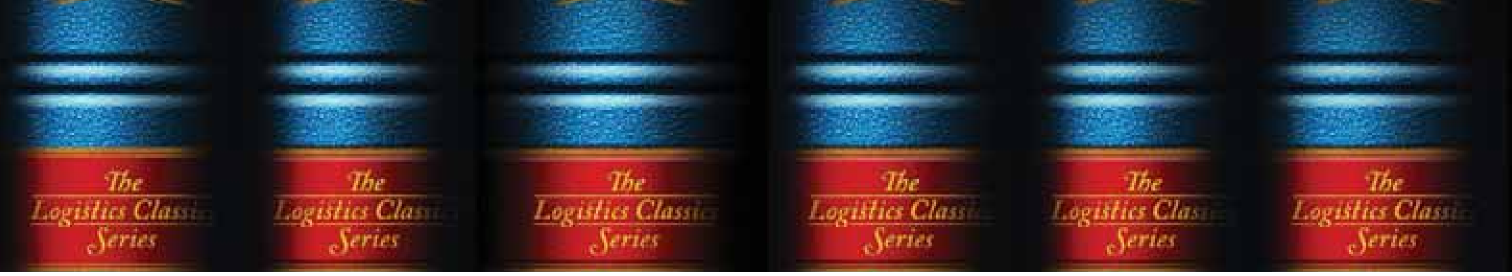


Making vendors and service providers accountable for selecting pre-determined mode options can reap low-hanging value with little effort. In this regard, a routing guide presents a passive means for reducing transportation spend and increasing efficiency.

"The mere fact that a company gives thought and publishes a routing guide that incorporates a non-compliance policy will typically influence the suppliers' behavior," he adds.

Leveraging TransportGistics' Web-based routing guide tool to publish transportation instructions lets Ingram Micro hold vendors accountable for using preferred carriers and properly loading shipments for efficient redistribution in the warehouse.

The threat of incurring financial sanctions is usually enough incentive to comply with customer instructions.

Additionally, "routing guide compliance can reduce many hidden costs in the supply chain," observes Jeff Johnson, vice president, logistics and transportation, Ingram Micro. The Santa Ana, Calif., wholesale computer products distributor has been using TransportGistics' Web-based routing guide solution since 2001 to publish its transportation policies and instructions.

"The rework on shipment damage is one great example," Johnson adds. "A vendor ships product believing it will get to market and be sold quickly. Many suppliers are surprised, however, to discover that more than one percent of product is cosmetically or physically damaged before it ever gets to market.

"Compliance eliminates the cost to process damaged product returns back to the vendor, the transportation cost back to the vendor, the rework at the vendor, and the reshipping to market," he continues.

Vendors benefit as well. Building specific instructions into routing guides eliminates issues such as pallet overhang, lack of corner borders, and improper mode utilization–all of which may lead to product damage during shipment.

"It's a win-win for the vendor and the distributor," says Johnson. "More product is sold because it is available to be sold, and rework costs are eliminated. Additionally, vendor compliance creates transportation density in lanes. This can lead to mode shift as well as incremental leverage with transportation service providers."

As supply chain complexity grows, routing guides have evolved into comprehensive documents that go well beyond simply dictating carrier and routing preferences, steering supply chain strategy in countless ways.

Loudenback broadly sees the routing guide as representing operational requirements that have an impact on inbound material movement. This may include palletization, documentation, packaging, hazardous materials, non-compliant materials, and delivery appointment times.

Without proper instruction, suppliers act according to their own needs, forcing customers to "normalize" receipts upon delivery, he says. Instead of letting demand dictate action, consignees react to upstream suppliers. Therein lies a major disconnect.

By contrast, Ingram Micro values the consistency of holding supply chain partners in check at different interchanges within the supply chain–in a warehouse, for example.

"Following a routing guide streamlines distribution center processes, including appointments for carriers, receipt, and stocking," says Johnson.

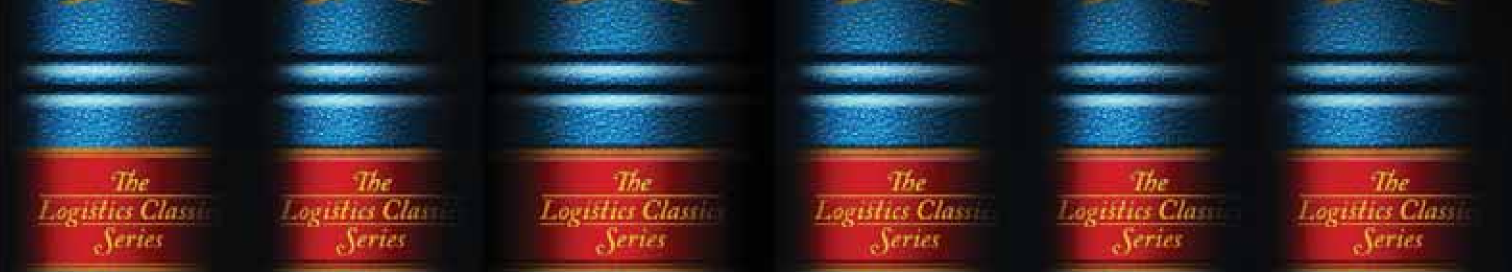
Not following routing guide instructions creates a cascading negative impact downstream in the supply chain and far beyond the transportation component.

"When materials arrive in a manner that impinges their efficient receipt, putaway, storage, order processing, and shipping, the operations team must expend additional labor hours and resources to correct the deficiency," explains Loudenback.

Alternatively, routing guide compliance favorably impacts upstream processes such as procurement, reinforcing organizational requirements to suppliers and trading partners.

"The procurement organization is often so focused on forecasting and tactically executing orders that they miss opportunities to enhance efficiency by ensuring suppliers understand its instructions," Loudenback adds.

Failure to meet any and all of these shipment specifications can leave



consignees with myriad inconsistencies that ultimately impact freight payment auditing.

"When shipments arrive with poor or missing documentation, the operations staff must shift into 'detective' mode and discern which purchase order the shipment should be applied against," he continues. "This sets the stage for an account reconciliation dance between the supplier and customer."

Routing guide conformity eliminates these types of service variations, which helps consignees reconcile freight claims, returns, and spend.

Seemingly, an inbound routing guide should be the foundation for transportation management. Surprisingly, often it's not.

"In the normal course and evolution of business development, organizations naturally gravitate to the downstream or customer-facing aspect of their supply chain," says Loudenback. "It is common to see a disproportionate level of resources lacking in the inbound or upstream material flow."

If demand-centric processes take precedence over back-end, supply-oriented functions, but businesses fail to connect the two, they don't see the supply chain in its entirety. This detachment breeds bad behavior and inefficiency, and greatly diminishes visibility and communication from the point of sale back to the point of origin.

At a higher, more macro level, "the failure of a business to compile a routing guide means it has not given thought to policies and instructions that, if followed, would dramatically reduce the costs of operations and transportation," observes Loudenback.

Another reason for such dereliction, suggests Johnson, is that businesses have become so enamored with outsourcing logistics, they sometimes lose internal control or fail to convey the importance of inbound logistics to their third-party logistics providers (3PLs).

"With the growth of 3PLs, many firms have outsourced their supply chain management talent," he says. "The functional expertise within a company's transportation, logistics, and supply chain management may be diminished,

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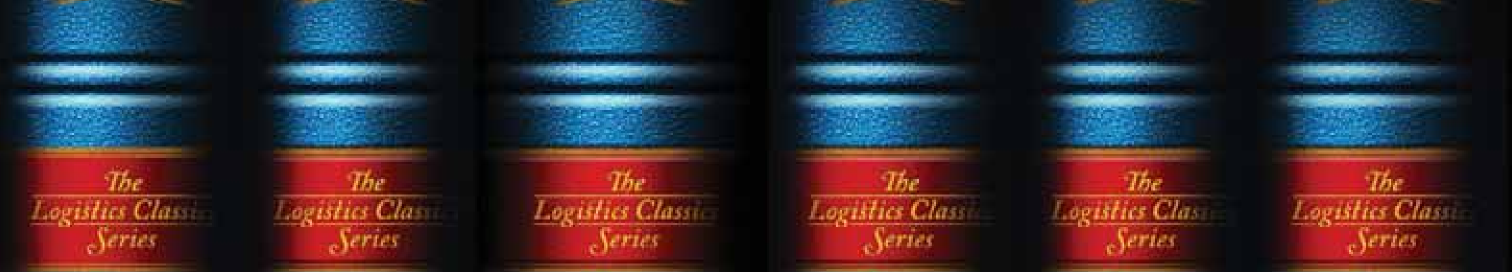

resulting in less focus on inbound logistics," he says.

Where businesses ultimately seize ownership of product, and therefore assume shipment liability and cost, depends on the consignee's supply chain sophistication and timing of revenue recognition.

"Who assumes risk of loss in transit and who pays the freight are considerations that two companies must negotiate toward a mutually satisfactory arrangement," explains Loudenback. "Once determined, the routing guide is the vehicle to provide instruction on the activities and tactics that yield the most efficient movement of the product within those agreed upon terms."

Suppliers are generally prepared and willing to route shipments according to consignee preference, especially when they recognize the potential value of divesting transportation liability and cost. Occasionally conflict arises, often as a result of poor communication between the buyer and supplier.

"If the vendor sees transportation as a profit center with the goal of collecting penalties rather than driving true supply chain efficiency, then there is resistance," says Johnson.

Inertia may also set in if a vendor perceives routing guide compliance in conflict with its own processes, and the cost of supporting those customer requirements.

"The key is getting those discussions on the table and working through them," says Johnson. "In most cases, Ingram Micro has been able to find common ground with the vendor and/or its 3PL providers."

The onus falls on the consignee to instruct suppliers and service providers on a course of action that is amenable to all parties involved. Consequently, providing vendors with empirical data that shows the financial and service

GETTING BACK TO BASICS:
Developing an Inbound Routing Guide

An inbound routing guide is a reflection of a company's needs and its expectations for vendors and supply chain providers. As such, it should be clear and concise, adaptable and accessible. Specifying transportation instructions only works if businesses regularly measure conformance and communicate non-compliance issues with vendors when problems arise. Here's some advice for creating a successful inbound routing guide.

1. **Use the Web.** Shippers can be choosers, and using online routing guide services should be a preferred choice over print versions. Internet-based routing guides give users the flexibility to update and change instructions at a moment's notice, then easily convey this information to vendors and supply chain partners, and confirm receipt.

2. **Define your routing guide requirements.** Today's routing guides can include an array of instructions detailing modal and carrier preferences, loading and packaging requirements, non-compliance rules, and hazmat handling, among other considerations. Specifically, consignees can drill down favored carriers by lanes and origins, by state or ZIP code, speed-to-market requirements (LTL, TL, next-day), or by shipment characteristics: weight, special handling, and temperature sensitivities.

3. **Include provisions for handling special shipments and for authorizing contingency options when exceptions occur.** They may also look to identify consolidation opportunities to leverage volume discounts per specific shipment types and weights. Keeping it simple and clearly defining relevant directions helps eliminate confusion and ensure compliance.

4. **Build routing guides around your core carriers.** Having a roster of core carriers, by mode, dovetails with developing an inbound routing guide. Businesses can specify primary and secondary carriers in specific lanes or for certain shipment types and align these routing preferences and instructions with vendors.

5. **Communicate.** Beyond enforcing compliance, talk with carriers and vendors to identify problems and share ideas for improvement. Keeping supply chain partners in the loop, through an internal routing guide and with external communication, helps build strong partnerships and mindshare.

6. **Evaluate compliance and performance.** Consignees should regularly keep vendors apprised of non-compliance issues. When problems recur, they should seek plans for corrective action. Make sure non-compliance policies and penalties are well-documented.

   Benchmarking service performance and freight rates can similarly breed healthy competition among carriers and vendors. Businesses can audit this information against routing guide specifications to discern carrier, rate, and mode use and explore opportunities for improvement. With so much cost and capacity fluctuation in the market, businesses need to reflect these changes in their routing guides.

7. **Confirm receipt.** Technology has helped mediate security concerns over circulating print guides with confidential information. But companies should always confirm receipt of new routing instruction to ensure vendors are complying with up-to-date instructions.

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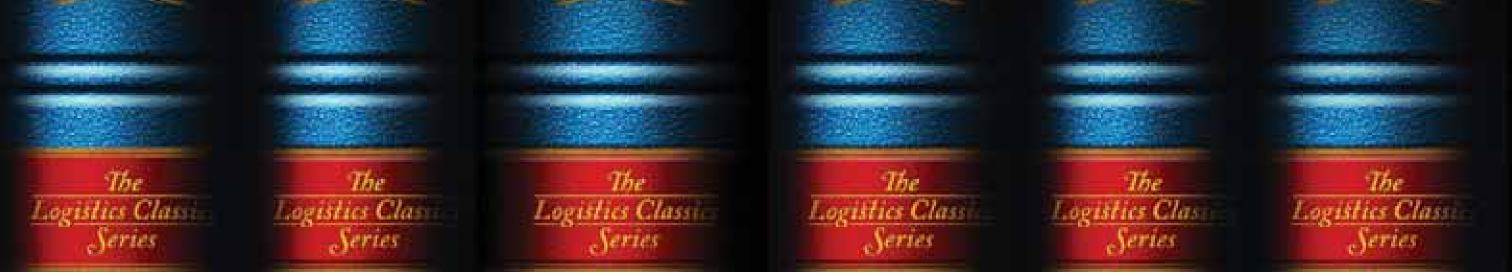

implications of non-compliance can serve as justification for holding them accountable to meeting routing guide specifications.

Pushing compliance in a pull-oriented way is a simple strategy for building collaborative and innovative supply chain partnerships. An inbound routing guide stimulates and sustains communication among consignees, vendors, and third-party intermediaries.

"Establishing a routing guide opens dialogue between partners on issues and opportunities," says Johnson. "On the issues side, it brings to light where alignment is lacking in the existing supply chain. Once those issues are addressed, partners can move on to opportunities, many of which are discovered during the conversations that begin with routing guide compliance."

When businesses and supply chain partners operate in silos, inefficiencies and costs run rampant. Without a firm line of demarcation between acceptable and unacceptable rules of engagement, parties tow their own lines, creating unnecessary division.

"This behavior typically sets up friction between organizations and, if not addressed properly, the businesses end up circling the drain in a non-productive cycle of cause and effect," says Loudenback.

When vendors violate agreed-upon arrangements, it brings a customer's purchasing, operations, and transportation functions into the picture.

Such engagement breaks down siloed walls inside and outside the enterprise, helping consignees elicit more actionable information from different functional areas while giving vendors deeper insight into their customers' needs.

"This begins to build a more strategic relationship versus a simple transactional one," suggests Loudenback.

Pushing routing guide compliance among vendors can produce a cascade of efficiencies throughout the supply chain, optimizing transportation freight spend and warehouse labor costs, while setting the table for demand-driven strategies.

A routing guide can also give businesses a constructive anchor for measuring performance. Shippers can use this leverage to incent performance and create internal competition within their supply chain, therefore increasing service and driving economy.

For example, Ingram Micro can juxtapose where a vendor ranks against competitors in terms of routing guide attributes and compliance.

"As we collaborate with our partners on issues related to the routing guide,

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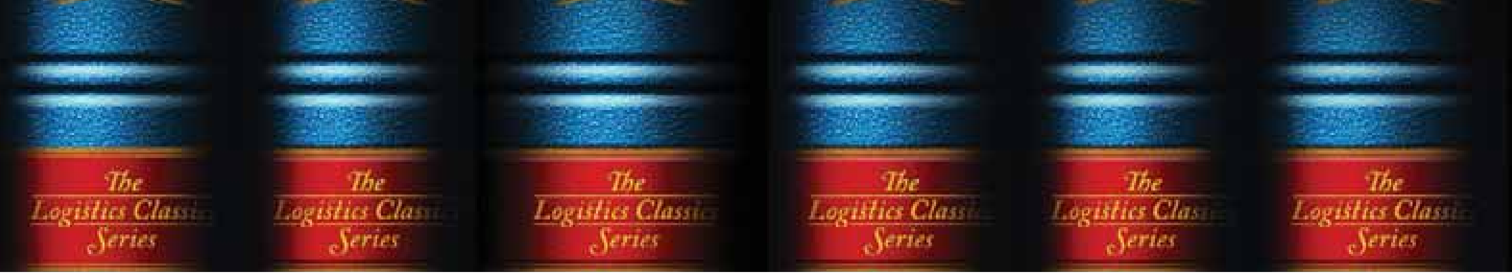

it's not uncommon to discuss how to re-engineer the supply chain all the way back to the original design manufacturer or original equipment manufacturer, and how we can collaborate to drive cost out and market share up," says Johnson. "The seemingly tactical discussions about compliance that start at lower levels quickly shift to partnership and problem-solving on a much larger scale."

> "The routing guide is not a magic tool that instantly changes a supply chain network. Rather than effecting radical change, a routing guide can foster evolutionary change. It aligns discussions that lead to low-level collaboration, which can then blossom to strategic development."
>
> —**Jeff Johnson,** vice president, logistics and transportation, Ingram Micro

As a fundamental part of transportation management, today's routing guide can serve as a catalyst for more penetrating business process improvements. Web-based routing guides are what Loudenback describes as bi-directional portals–"because the Web changes everything relative to the way content and information is embedded in the document."

Organizations are typically stratified in three phases of routing guide and vendor compliance sophistication, explains Loudenback. These include:

■ **Phase 1:** The company has not developed and published a routing guide. Its internal staff and external trading partners ship at their own discretion. This company is at the highest exposure for unnecessary logistics costs.

■ **Phase 2:** The company has developed and published a static routing guide that can be mailed or e-mailed. Confirming routing guide receipt is still a challenge. Additionally, making changes, edits, or updates to the document is problematic. This makes it difficult to effectively execute a compliance strategy.

■ **Phase 3:** The company has developed its routing guide, determined its audience, and published the document on the Web. It confirms receipt and effects updates and changes to a document as well as republishes when necessary. It is prepared to measure and administer a compliance strategy.

Most businesses fall into the first two phases and are not capable of executing more complex demand-driven strategies. This is where Ingram Micro found itself in 2001 when it first sought TransportGistics' assistance.

The company was e-mailing a paper-based routing guide to more than 2,000 vendor contacts with a high frequency of non-deliveries. It also lacked the means for updating instructions and guaranteeing supply chain partners received them.

Working with TransportGistics to automate its routing guide has helped Ingram Micro realize the hidden costs associated with inefficient movement of inbound material–harnessing compliance to master inbound logistics.

"From packaging, to damage, to documentation, and certainly transportation, Ingram Micro took a holistic view of communicating policies and instructions, as well as correcting bad behavior with its suppliers," says Loudenback. "This approach has enabled it to cut significant costs from its operations and transportation budgets."

Such integration is paramount as businesses build the foundation for true demand-centric supply chains. A static inbound routing guide is a step in the right direction; a dynamic, Web-based interface is a leap with boundless potential.

But, "most companies need to walk before they can run," Loudenback suggests. "By working through these progressive steps, organizations can determine the effort and resources they are willing to allocate to achieve their desired performance level."

Johnson shares a similar perspective. "The routing guide is not a magic tool that instantly changes a supply chain network. Rather than effecting radical change, a routing guide can foster evolutionary change," he says. "It aligns discussions that lead to low-level collaboration, which can then blossom to strategic development."

Efficiencies may begin with greater vendor compliance and control over freight spend, then incrementally build as companies negotiate transportation rates, pare down core carriers, identify areas for shipment consolidation, and mirror these changes in their routing instructions.

"Visibility to suppliers' orders in advance of shipment offers the ability to route and consolidate dynamically," adds Loudenback. "Combined with the carrier's in-transit status message, a company now has mastered visibility and control over its inbound supply chain."

From addressing obvious tactical problems to driving latent strategic designs, bridling inbound material movement opens up new vistas for business process improvement. Some businesses need look no further than literally documenting and communicating what they want. That's the value of an inbound routing guide. ■

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TRANSLOADING

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The growing importance of intermodalism in the United States raises the stakes for efficiently managing transportation at key supply chain interchanges. This is where the value of transloading comes into play–the process of transferring commodities from one mode of transportation to another to gain economies of scale and rail.

Wherever cargoes cross roads, rails, or water-borne routes, opportunities to drive efficiency abound. From coastal gateways to inland ports, in transload terminals or at rail-served warehouse crossdocks, businesses mix cargo with modes to reduce transportation costs, access capacity, and increase flexibility.

The inherent costs–in both time and money–that added touches require place a great deal of importance on fine-tuning these transportation exchanges. Working with third-party transloaders, and with rail and trucking partners, shippers can leverage mode shifts and pauses in transit to consolidate shipments and manage inventory closer to customer demand.

As a basic strategy, transloading gives shippers the flexibility to serve a diversity of logistics operations, while reducing transport costs by substituting rail line-haul for truck. More sophisticated supply chains can leverage these interchanges to postpone inventory, reduce or even eliminate warehousing, and act as a capacity release when ports are overcrowded.

Domestic shippers predominantly use intermodal transportation to mix and match rail and trucking efficiencies to derive the best total transportation cost per service and timeliness requirements. Transloading serves as the bridge between modes, offering a prime opportunity for businesses to not only eliminate inefficiencies at hand-off, but also use these supply chain breaks to strategically position and manage inventory.

Practically, shippers value opportunities where they can carry long-haul tonnage by rail, leaving more expensive over-the-road options to manage first- and final-mile delivery demands.

"Transloading gives shippers the ability to move products by rail to central locations, then reload to trucks for just-in-time (JIT) deliveries," says Larry Smith, executive vice president of sales for Bulkmatic, a Griffith, Ind., bulk carrier specializing in rail-to-truck transfer.

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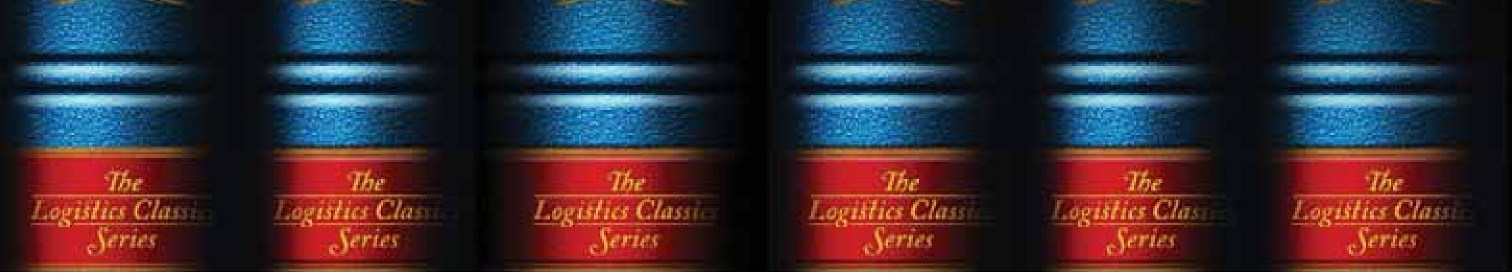

Locating transload facilities closer to demand allows shippers to reduce costs by buying in rail volumes, while still having the flexibility to ship locally by truck. Strategically positioned terminals also allow companies to execute just-in-time inventory replenishment.

rail car volumes while still having the flexibility to ship locally using truckload. Instead of shipping high-value goods long distances over the road, they can bulk ship freight on the railroad before product is manufactured or processed and redistributed to final destination.

Chicago-based Corn Products International, one of the world's largest corn refining and ingredient companies and a leading regional manufacturer of starches, syrups, and glucose, relies on Bulkmatic to manage its U.S. transload operations.

Bulkmatic serves as Corn Products International's terminal operator, and in many cases, transportation provider at seven railroad-operated sites and two private transfer sites in the United States.

"Transloading is a major distribution channel for us; it allows us to reach every major U.S. market with competitive service and pricing," says Tom Waskiewicz, director of rail transportation for Corn Products International.

Bulk commodities are shipped by rail to transloading sites, where materials are then transferred from rail cars (tank, covered hopper, or pressure differential car) into bulk truck movements (tank or pneumatic) for local delivery to market.

By placing product closer to end users, volumes are concentrated so Corn Products International can improve asset utilization. "Shipping weights can increase based on a customer's storage capabilities and we can exploit multiple-load opportunities with our customers," adds Waskiewicz.

As with a traditional continuous flow crossdock, consignees can build additional value into these transload touch points, often consolidating product even further to move fuller trucks outbound.

"Some food-grade transloads blend and mix product for redistribution," says Mike Devine, director, economic development for BNSF Railway. "A basic product comes in and a refined product trucks out. Or some plastics may be delivered to a warehouse bagged, then redistributed in a different type of packaging."

Using multiple modes is appropriate for commoditized products where demand is more consistent and timeliness is secondary to cost. The sacrifice in accommodating lengthier transit times and staging or warehousing freight for transload is often offset by the economy of minimizing long-haul trucking.

"Shifting products between modes sometimes can be more costly, but for the most part we can save consumers money by dealing with each transportation leg separately," says Smith.

Conversely, a well-run transload can help businesses manage supply chain volatility simply by locating inventory closer to demand. "Transloading improves the supplier's ability to react to emergency situations, short lead times, or changes in demand," says Waskiewicz. "Fixed cost is also minimized, so facilities can be increased or decreased based on volume demands."

Businesses must have visibility into forecasted demand to account for mode shifts and to flex with demand variability, which requires a great deal of

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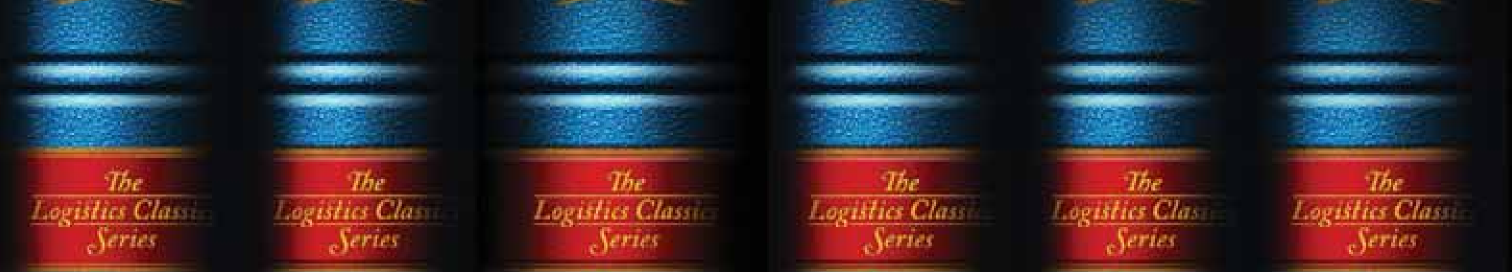

communication among supply chain partners. When visibility becomes muddled at hand-offs, problems arise.

"Failure to follow the load through to delivery is one major way to lose visibility–as well as business," notes Smith. "The technology is there, so we can monitor truck movements from beginning to end. We can show exact time of arrival and departure from the truck's cab."

The integration of computer systems and electronic communications (EDI, mainline, or Web-based access) has greatly improved and streamlined the process and enhanced intermodal transparency for shippers such as Corn Products International. Connecting all the different players together is crucial to ensuring compliance and seamless transloads.

"The shipper, rail and truck carriers, and transloading operators have access to more information on each leg of the distribution channel," says Waskiewicz. "Real-time, online applications improve order processing, inventory management, and service."

Consequently, this forced data share allows companies to establish key relationships at the local level between the railroad, transfer operator, and carrier that similarly improves service and reduces costs.

Working together, transload partners can identify better means to optimize exchanges, maximize asset utilization, and improve efficiency–for example, working three shifts a day instead of one eight-hour shift.

"We try and work with ocean and rail partners to package best-case scenarios for inbound products. Where is the best transfer site based on manufacturing? What railroad serves the ocean carrier as well as the inland site? The goal is to use fewer of the same modes to reduce costs," says Smith.

Invariably, businesses utilize transload terminals to align their upstream and downstream supply chains to be more efficient in terms of matching production flows and demand signals to intermodal transportation, thereby managing more responsive inventory.

"Production planning, inventory management, and sales forecasting are critical components of a successful transloading distribution strategy," says Waskiewicz.

"Production can be placed in strategic

A Multimodal Model

Given the inherent complexity in connecting modes, businesses and service providers approach transloading in different ways. Rail carriers, trucking companies, and third-party logistics providers fill management roles to varying degrees.

BNSF Railway, which operates some transload terminals within its network, often delivers to consignees in care of third-party transloaders. They, in turn, provide transportation services to final destination. Arrangement controls differ from railroad to railroad, and among trucking companies as well, with some owning their own terminals and managing the process across both modes.

"By our definition, about 500 transloaders serve multiple customers with multiple products," says Mike Devine, director of economic development for BNSF Railway. "It's about bringing products in and switching them out."

BNSF is currently studying different models to identify the best way to move forward with its transloading operations. "Obviously a railroad has more control over the process if it owns the site or even considers investing in trucking assets, as opposed to partnering with intermediaries that are operating on private sites served by the railroad," Devine says.

Shippers see these multimodal models through different perspectives as well–and there are cost and control implications in the approaches they take. "The majority of our freight is shipped unbundled," explains Devine. So the rail and truck rates are separate, and the shipper reconciles the total cost with a transloader. In this manner, the third-party service provider connects both parts.

"We have some bundled rates that include freight transloading and trucking, but it's not as common," he adds. Shippers may prefer this method of buying transportation because it combines both parts into one freight bill, and creates one point of control in managing the process.

Sourcing decisions often depend on the product, storage capabilities, and how active the shipper wants to be, says Larry Smith, executive vice president of sales for Bulkmatic.

"If we can provide a complete service by monitoring the consignees' silos and the shippers' on-hand product at a transfer site, we then can provide complete service without the shipper or consignee being involved in that part of the process. We schedule the loads based on what the consignee is using and inform the carriers of inventory on hand," he says.

Alternatively, shippers can use a transloader to cut their own deals. Negotiating prices in lieu of a single freight bill takes on added complexity to break out costs. But it also gives consignees greater control parsing transportation costs by mode to identify the best price available and adapt it to unique requirements.

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Corn Products International works with Bulkmatic to ship bulk commodities by rail to transload terminals, where materials are transferred to truck for delivery to market. This allows the company to reach major U.S. markets with competitive pricing and service.

locations, improving our ability to service customers with less lead time, maximize truck and driver utilization as reloading opportunities are maximized, and respond more quickly to emergency situations–all while reducing transportation cost and improving service," he adds.

This positional play lends itself to innovative inventory management designs and JIT, demand-driven supply chain strategies.

"Shippers across modes have been willing to exploit inventory in motion when delivery times allow for such flexibility," notes Devine. "It's common for shippers to use railcars and boxcars in a similar manner, but it is becoming more difficult to do with capacity limitations."

If a transload site has enough space, consignees can use it to store all or most of their daily replenishment needs.

"There is a cost for the storage, but if enough business is there, that cost can be spread out over several products," says Smith. "Companies can store product in rail cars or in a warehouse. Some items can be stored in an open field."

More purposefully, one benefit of using transloading is that it provides a flexible means for driving JIT efforts–sometimes even before demand becomes manifest. Some plastics companies, in particular, will send product out the door without a destination in mind. "They'll deliver to the shipyards, then determine where it's going," Devine says.

The same theory applies for more common JIT scenarios. "Shippers can take advantage of rail pricing and leverage the transload to hold inventory until they need it," says Devine. In essence, consignees manipulate mode to match speed-to-market demands.

In terms of meeting demand-driven requirements, placing and holding product at strategically located rail facilities provides shippers and consignees with the ability to move product quickly.

"With the density of highway traffic in southern California, it's not uncommon to have transloads every 20 miles or so," says Devine. "You can't underestimate the value of having product staged close by, especially when you have to deliver to a site within a certain time frame."

Matching freight transportation needs and costs with production flows and lead times, and locating inventory closer to demand, make transloads a vital part of intermodal movements.

"Transloading establishes a platform that places the product closer to the end-user market, which provides opportunities to meet customers' needs efficiently," says Waskiewicz. "The challenge is to balance customer needs with optimization opportunities by working together." ■

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In a perfect world, inventory would never remain static. Product would flow from manufacture to consumption in a steady demand-driven stream–between plants and warehouses, among suppliers and third-party logistics service providers, along rutted roads and reticulated conveyors, to retailers and residences alike. In the absence of perfection, a crossdock works just fine.

Crossdocking eliminates storage by seamlessly moving product through a warehouse or distribution facility, synchronizing inbound material movement with outbound deliveries. Conceptually, the idea is to reduce warehousing touches, eliminating putaways and picks, and immediately transferring product from transport to transport.

Businesses often use crossdocks to consolidate like shipments and pool deliveries, thereby filling and transporting more complete loads to customers, reducing inventory and carrying costs, and optimizing transportation and labor utilization and spend.

As a tactical, distribution-oriented activity, crossdocks command attention both upstream and downstream in the supply chain, driving visibility into purchase orders and asset requirements, setting the table for more strategic, lean initiatives elsewhere in the supply chain.

Simple in theory, yet complex in execution, the art of crossdocking provides optimal returns on investment when all its parts operate in unison. Eliminating safety stock, shortening lead times from make to sell, and scaling down expensive storage facilities are goals all companies strive to attain. Getting there requires a great deal of collaboration and communication.

Crossdocking presents a different type of sophistication than high-end distribution facilities touting state-of-the-art conveyor and sortation systems. With a fleet of lift trucks and room to roam, shippers are tasked with managing freight flow through time-sensitive transportation windows.

"Crossdocks mean managing high-volume, high-velocity, and highly variable flow on a dock typically no larger than 100,000 square feet," says Geoff Sease, vice president, Sam's Logistics, the logistics arm of retail chain Sam's Club. "The challenge is managing to get the basketball through the garden hose on any given day."

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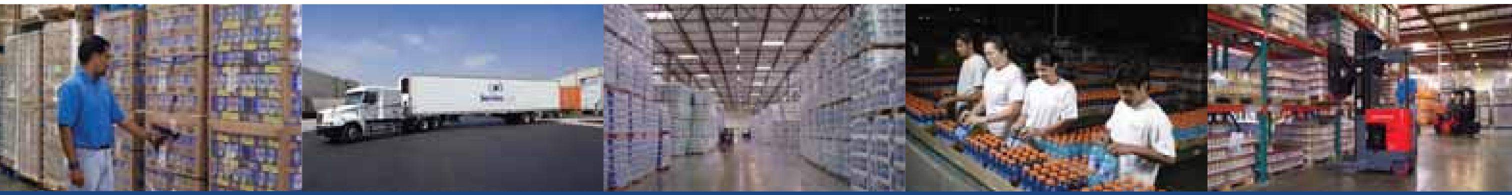

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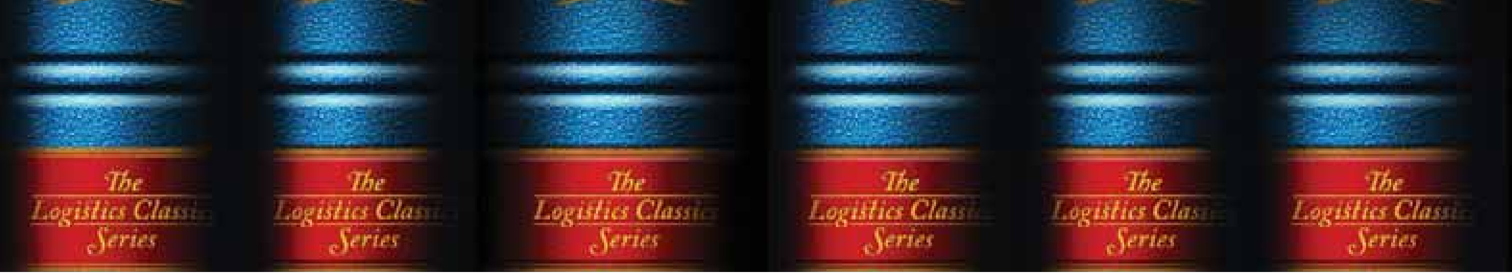

Sam's Club relies on Saddle Creek to manage crossdock facilities that receive inbound movements and cube out deliveries to its stores.

Businesses generally utilize crossdocks in one of two ways–to reduce inventory and speed turns, often in just-in-time (JIT) retail environments; and to consolidate freight and rationalize transportation assets and costs. In between are myriad justifications for considering quick throughput processes and facilities.

"Successful crossdocks pause flow only as long as it takes to receive, consolidate, and ship," says Sease. "It works most efficiently when the ordering unit is in pallet quantities, but can just as easily be applied to case pack or break pack with the right sortation equipment.

"The key point is that inventory is held at the manufacturer, in-transit, and at the retail unit, but not at centralized DCs," he adds.

Bentonville, Ark.-headquartered Sam's Club relies on Saddle Creek to manage dedicated crossdock facilities in Georgia, Mississippi, and Florida. The Lakeland, Fla., third-party logistics provider manages inbound carriers, receives and checks product, performs quality inspections, and builds outbound cube density to drive productivity and reduce costs for the wholesale club.

Perhaps more than any other transportation and logistics process, crossdocking demands an extra dose of collaboration between consignees, 3PLs, and vendors, from placing orders to building outbound loads. It places pressure on execution at every juncture in between to make sure processes are aligned and visibility is robust.

"Because buffer stock doesn't exist to accommodate variability in manufacturing, transportation, or DC handling performance, it requires greater visibility of performance exceptions at all touch points in the supply chain," says Sease. "The key to great crossdock service is to ensure predictable and high velocity flow. Crossdock operations cannot create any additional uncertainty in lead time or inventory grows in the system."

With their JIT approaches to inventory management and product flow, retailers have historically leaned on crossdocking to speed product to market. But upstream partners are quickly gathering its import as well.

Outside the retail/wholesale context, crossdocking lends itself to consolidating inbound shipments versus outbound delivery to retail units, and therefore, optimizing truckload (TL) utilization.

"In a down economy, it doesn't make sense to use two trucks a day if only one and a half are full," says Mike DelBovo, senior vice president, Saddle Creek. "Companies need to be able to flex transportation. Dedicated fleets are great when they are full, but when they aren't you have to look elsewhere. Businesses can partner with suppliers upstream and consolidate on the front end to pool shipments, not just deliveries."

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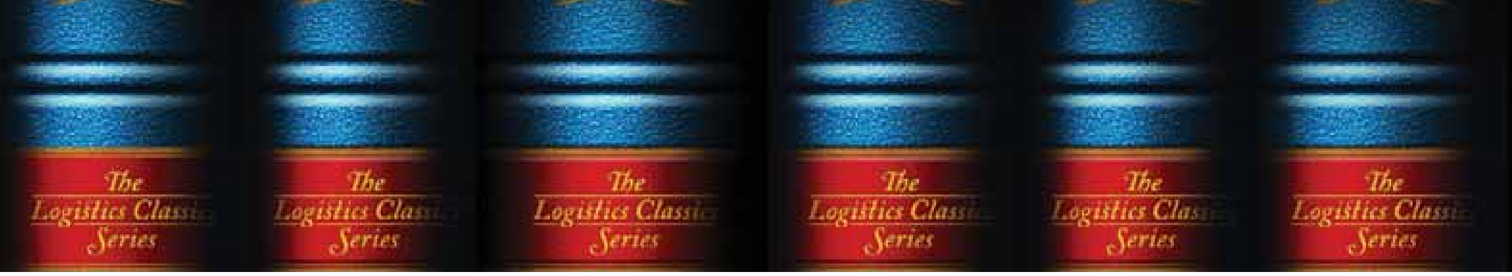

“Crossdocking and consolidation take trucks off the road and reduce emissions and carbon footprints. A heavy load moving into a facility presents a huge advantage.”

–**Mike DelBovo,** senior vice president, Saddle Creek

Saddle Creek has witnessed growing interest in crossdocking from suppliers and manufacturers shipping multiple SKUs. Even companies with a mix of different types of product and speed-to-market variables can find opportunities to take storage out of the equation.

As an example, some companies are co-opting standard warehouses as modified crossdocks, cutting a corner out of the facility and using two doors to keep high-velocity product moving, while storing less time-sensitive shipments.

In terms of cost breaks using less-than-truckload (LTL) crossdocks, “consignees can reduce overall transportation costs for small suppliers with low-volume orders by consolidating and fully utilizing trailer capacity,” says Sease.

Shippers can similarly manage costs in the distribution facility by flowing as much inventory as possible through crossdocks.

“If three TL shipments come into a facility and one can be immediately crossdocked, that is a gain,” says DelBovo. “With a crossdock, the product is touched once, as opposed to storage where the product is touched once in putaway, then twice when it is picked and put on a truck. By identifying crossdock opportunities, companies can reduce associated warehouse labor and materials management costs.”

While crossdock facilities are tactically centralized, successful operations require compliance at both ends of the supply chain. For demand-driven enterprises, this begins at the point of sale and radiates out.

“Demand forecasting for retail replenishment needs to be more accurate farther away from the demand,” says Sease. “Transportation capacity, both upstream and downstream, has to flex to more dramatic swings in volume as the system responds to what consumers are buying.”

Crossdock consolidation is at a premium when demand peaks. With greater volumes coming into stores, “retailers need to be able to receive lots of freight in short windows,” he adds. “Once orders are cut to the suppliers, the merchandise can’t be held up along the way.”

This requires a great deal of communication and transparency between the consignee and supplier to ensure demand is aligned with available transportation options. Without accurate forecasts and well-managed transportation and crossdock operations, retailers struggle with out-of-stocks or sitting inventory they can’t move.

The risk of running lean often forces compliance in its unique way. Shippers and consignees that operate crossdocks demand precise and predictive execution among all partners. This unexpected, yet welcome, dividend drives accountability throughout the supply chain.

Each party–vendor, consignee, and intermediary–is scrutinizing the supply chain, and is measured against each other’s performance. Customers have to order in the right batches and sizes to consolidate shipments, and suppliers have to load trucks properly to gain efficiency.

IN AND OUT: Dedicated crossdocks operated by third-party logistics service providers such as Saddle Creek allow companies with high-velocity inventory to flow freight faster and optimize demand-driven processes.

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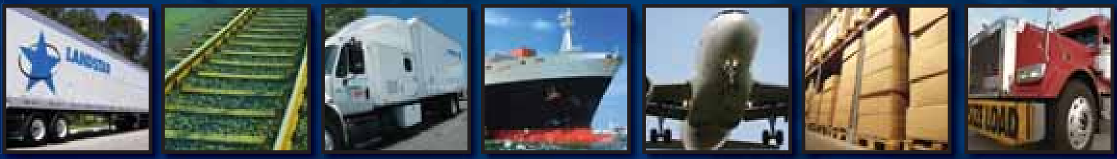

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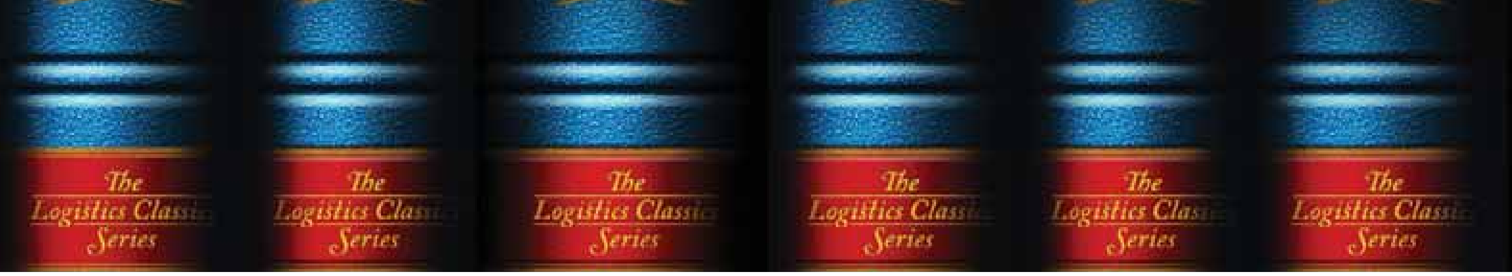

"Crossdocking forces partners to work together," says DelBovo. "If something goes wrong or isn't working properly everyone sees it. If trailers are coming in half-full and associated costs haven't been reduced, everyone knows about it."

> "The key to great crossdock service is to ensure predictable and high-velocity flow. Crossdock operations cannot create any additional uncertainty in lead time or inventory grows in the system."
>
> –**Geoff Sease,** vice president, Sam's Logistics

What companies may not easily recognize, or readily share in the face of competition, however, is the broader impact crossdocking has on strategic supply chain underpinnings.

"If a business is able to manage its operations without centralized inventory, crossdocks can provide a low-cost, fast method to flow freight," explains Sease. "It works especially well with pallet-level distribution. If case packs or break packs are required, crossdocks across a short span of real estate with high-speed conveyors and sorters can be effective as well–albeit more expensive."

Given the cost of transportation, particularly LTL, businesses are discovering that decentralized, quick-throughput facilities that can consolidate TLs are advantageous. The trend to pull networks back and consolidate in big box distribution facilities has given way to a more lean distribution approach.

"In years past, if a company was operating a distribution facility out of Charlotte or Florida, it shifted back to Atlanta," says DelBovo. "We now see companies use smaller crossdock facilities in these secondary markets, with less inventory, to move product where it needs to be."

Companies still have to consider a full end-to-end supply chain review to identify the total cost of investment, beyond the crossdocking piece. Sometimes these circumstances may not accommodate lean distribution operations.

"Because crossdocks are cheap in comparison to big box DCs, inbound and outbound transportation becomes a bigger part of the overall cost structure," says Sease. "Then you have to balance all that against the cost of inventory. Investment in distribution technology and centralized storage capacity makes sense if the centralized inventory management provides the lowest landed cost."

But when crossdocks make sense, and businesses connect all the parts and standardize operating procedures, efficiencies teem. In that one touch, shippers can build value into the process by consolidating shipments and pooling deliveries. Herein lies the real value.

For retail distribution, in particular, managing inbound freight is the most complex and expensive part of the supply chain. More money is spent moving merchandise from suppliers to centralized DCs than shipping from those DCs to retail units.

"Supplier networks often overlap and have common retail customers," explains Sease. "Prepaid consolidation or freight pooling can help leverage assets across suppliers. Crossdocking palletized merchandise is a cost-efficient way to get the final delivery closer to its final destination."

Aggregating and shipping high-velocity shipments also has green implications. "Crossdocking and consolidation take trucks off the road and reduce emissions and carbon footprints. A heavy load moving into a facility presents a huge advantage," says DelBovo.

Consequently, it forces businesses to reconsider the warehouse floor and how they manage equipment, labor, and materials.

"You can look at something as simple as pallet returns, and recycling materials such as corrugated packaging, when working a crossdock," adds DelBovo. "If companies don't operate a crossdock they probably don't manage this aspect of their warehouse well. As distances are generally shorter, they can bring materials and equipment back for recycling or reuse."

As sophisticated as supply chains have become–with multiple management systems, eye-in-the-sky strategic leanings, and materials handling bells and whistles commandeering budgets and resources alike–shippers and distributors need look no farther than the corner of their warehouse to find a radical means for transforming their business.

"There is no more cost-effective or quicker way to distribute pallets than with the use of a forklift across an open 100-foot dock," says Sease.

With the right systems in place, predictive visibility, and compliant supply chain partners, crossdocking is the most efficient method for pulling product through the supply chain.

"We tend to make logistics more complicated than it needs to be," notes Sease. "Facilities with complex automation and technology have a place in the industry, but if it doesn't have a return on investment, it can't pay for itself. Crossdocks are simple, efficient, and low-cost facilities. It comes down to what optimizes the entire cost of the supply chain." ■

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When companies are in periods of flux–experiencing growth or reduction in business, scaling resources to meet seasonality changes, or deeply engaged in a supply chain overhaul–it is often difficult to understand labor needs comparative to existing productivity. Whenever there is a need to reduce labor or consider outsourcing logistics functions to better allocate resources to demand and manage costs, there is resistance.

In an economic downturn, the challenge is infinitely greater. Businesses often tow a fine line between having just enough staff to do a job efficiently and more than enough people to adapt to supply chain changes without impacting service levels. They fight against relying on temporary labor and resist staffing up, but fear the lack of flexibility a bare-bones approach to labor management may create. Finding a balance between productivity and flexibility is a hurdle that invariably forces businesses to look outside the fold for help.

Whether in a warehouse or on the road, matching labor to need is a fundamental responsibility that requires constant communication throughout the supply chain, as well as visibility into forecasted demand.

It also requires a commitment to properly training and tasking employees so they are challenged and productive. People drive enterprise, so empowering employees to be decision-makers, and to make the right decisions, holds as much weight as finding the magic number to meet business expectations.

When Eastman Kodak Company began transforming to a digitally oriented imaging business several years ago, the Rochester, N.Y.-based company also initiated a radical supply chain transformation centered around a lean, demand-driven philosophy.

While Kodak has made significant progress implementing the new business model, it only recently applied it to other traditional functions, including transportation, at Eastman Business Park in Rochester, the manufacturing center for the traditional photographic business.

One year ago, the company partnered with Cardinal Logistics Management, a Concord, N.C., third-party logistics

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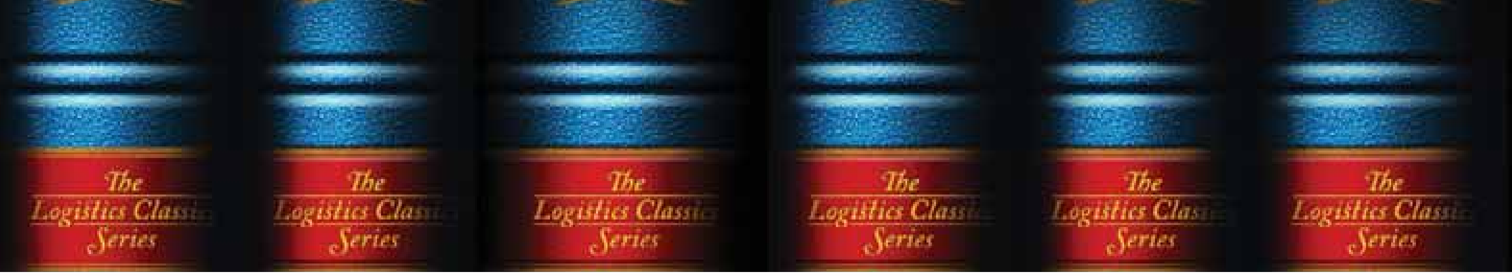

PICTURE THIS. **Following a radical demand-driven transformation on the production side, Eastman Kodak turned to Cardinal Logistics Management to lean its transportation operation.**

> "The transportation divisions were so used to doing things the Kodak way that it was difficult to see beyond that. Drivers needed to be empowered to do other tasks and make the right decisions."
>
> –**David Wilkinson,** Northeast regional vice president of operations Cardinal Logistics Management

provider, to divest its transportation services division in an effort to reduce costs, gain efficiencies, and focus attention on production-oriented goals.

"We are focusing on our core business, looking to find expertise beyond our internal resources while saving cost and driving innovation," says Arline Liberti, manager, Kodak Rochester Facilities, on the decision to partner with Cardinal.

In so doing, Kodak needed to integrate its transportation units–its courier business, freight truck operation, and tractor/trailer division–to be more productive and efficient.

"When we came on board at Kodak, the company was over-trucked and over-manned," recalls David Wilkinson, Cardinal's northeast regional vice president of operations. Essentially, the company's lean directive had yet to catch up with the organization's transportation piece.

In accordance with its Kodak Operating System (KOS), a lean Six Sigma strategy similar to the Toyota Production System, the company was challenged with scaling transportation labor and resources as it had elsewhere within the enterprise.

"The idea behind the outsourcing arrangement is to keep things moving, transportation on demand, much like the Toyota Production System," says Wilkinson.

The KOS initiative similarly places emphasis on empowering employees to follow *kaizen*, or continuous improvement processes. This strategy, which necessitates a flexible, adaptive, and team-oriented approach, corresponded with Kodak's new direction for managing transportation, and its arrangement with Cardinal.

Before Cardinal entered the picture, Kodak's transportation units were completely siloed and managed independently of each other, resulting in a lot of driver down time. Operators were trained for specific equipment, so a person worked for the van division but did not have the appropriate licensing to drive a tractor.

"We integrated this transportation part, and cross-trained drivers," says Wilkinson.

Today, utilizing a staff of 65 employees, Cardinal makes more than 350,000 moves a year, transporting product within the Eastman Business Park and using significantly less resources than Kodak did on its own–all within tight delivery windows to support the JIT environment.

In fact, the Eastman Business Park has become a model of just-in-time synchronicity, with Cardinal serving as the conveyance for pulling and transporting product on demand among the campus' facilities, and between Kodak and its customers.

"Kodak's transition caused some inertia," says Wilkinson. "Sixty-five employees were doing what 120 had done previously. People were wondering what would

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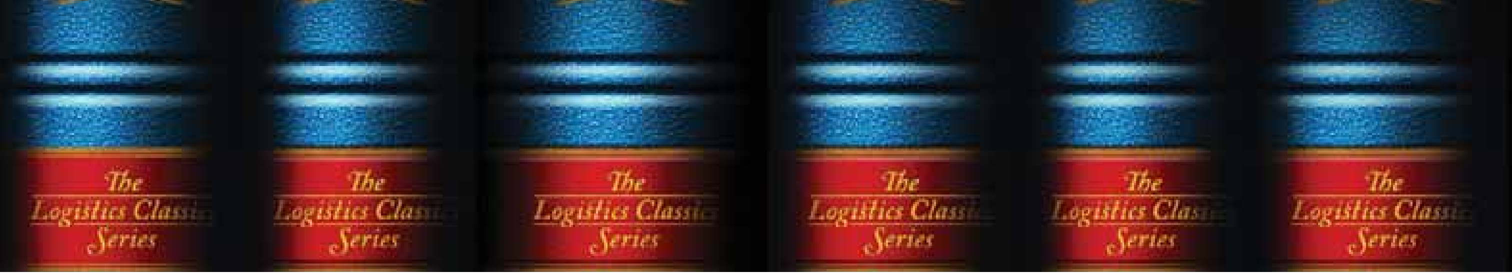

INKING AGREEMENT. **To better align Kodak's transportation needs and resources, Cardinal brought drivers and management together to share its plan.**

happen when we take that flexibility away. Drivers in particular were concerned that we would double their workload."

Kodak had a similar understanding of the risk involved. "People are our most valuable asset," notes Liberti.

But the company's commitment to re-focusing attention on its product pedigree, rather than non-core service functions, invariably limited growth opportunities for drivers and management on the trucking side of the business.

"First, you have to understand your business need and recognize the value. Second, you have to establish expectations that a third party can perform and sustain," adds Liberti. "There is a risk, but if it operates like it should, it's a win-win situation for Cardinal and Kodak."

Folding its transportation business into Cardinal's operation, and finding a third-party partner that was committed to addressing its workers' needs, allowed Kodak to identify new job opportunities for its staff without entirely shutting down the operation. At the same time, it created a new culture that paired Kodak-seasoned drivers and management with the 3PL's energized approach for reorganizing the transportation department.

> "Complacency breeds inefficiency. If you're not being challenged, your resources are not being utilized properly. You want to be productive; your drivers want to be empowered and doing different things every day."
>
> –**David Wilkinson,** Northeast regional vice president of operations, Cardinal Logistics Management

"The transportation divisions were so used to doing things the Kodak way that it was difficult to see beyond that. Drivers needed to be empowered to do other tasks and make the right decisions," Wilkinson says.

Cardinal performed an exhaustive recruitment process in outlining new plans for the transportation operation, seeking input from Kodak's drivers and management to identify areas for improvement.

"In an effort to drive total transparency, we shared our plans with the drivers and Kodak's transportation managers," says Wilkinson.

This collective mindshare has enabled Kodak to identify new ways to improve its transportation mechanics. Eastman Business Park is an entity in itself, and it's often difficult for such a large operation to see all its moving parts for what they are. The objectivity an outside partner can bring to streamline operations cannot be overlooked.

"Cardinal is constantly bringing new ideas to the table–optimizing our milk runs, for example–that we can act on," says Liberti. "There is a different motivation than if Kodak was coming up with these ideas itself."

Cardinal translated all this grassroots information into a better model for transportation efficiency. "When we see Kodak operating milk runs with 14 stops, we ask why? Does this run make sense? Are there overlaps?" explains Wilkinson.

Outsourcing the transportation component of Kodak's operations dovetails with its broader corporate effort to drive lean process improvements.

"KOS is a methodology for driving continuous improvement. Our employees are trained in this approach so they can identify better ways to eliminate waste," says Liberti.

This attention to process improvement and quality control is what motivated Kodak to find a service partner that could embrace its transportation operation, utilize existing driver assets, empower them, and drive out costs with a similar lean approach.

Continuous improvement demands constant evaluation and communication. Lean strategy may originate at the corporate level but it ultimately radiates out through an organization and its extended enterprise, touching logistics functions such as transportation and labor management.

"Complacency breeds inefficiency," says Wilkinson. "If you're not being challenged, your resources are not being utilized properly. You want to be productive; your drivers want to be empowered and doing different things every day. They need to feel like they are a part of the process." ■

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In warehouse and distribution facilities, it doesn't get more basic than using forklifts to move product around. All the economies and efficiencies state-of-the-art sortation and racking equipment, high-speed conveyors, and warehouse management systems bring to the warehouse floor are futile if companies don't manage their forklift fleets properly.

Scaling materials handling assets to seasonal demands requires a thoughtful plan for optimizing forklift fleets without wasting resources or expending capital beyond what is necessary. Businesses need to consider the types of lift trucks that are best suited to meet their unique warehouse needs as well as the best financing strategies for budgeting investment.

Creating the foundation for a well-run distribution or warehouse operation begins at the pallet level–the domain of the forklift.

Operationally, effective and efficient facility throughput rests on the yoke of well-machined lift trucks. Conversely, poorly managed or abused fleets can have a considerable impact on labor utilization, customer service, and total warehouse costs.

"Getting product in and breaking pallets down is basic warehousing. If you take the forklift out of the equation you have a problem," says Michael Gary, vice president, sales and customer service, for LTM Services, a Manorville, N.Y., fleet cost management consulting firm.

Optimization begins with marrying the types of forklifts companies use with how a facility is tasked for distributing product. Lift trucks come in a variety of models, from counterbalanced units and low-lift walkies to swing reach turrets; with a variety of power options including electric, LPG, diesel, and gasoline; and for a number of different DC set-ups such as very narrow aisles (VNA) and wide-open cross-dock spaces.

Food distribution companies, for example, use staging areas to move palletized product, so they unload and load shipments with full-wheel machines. Consumer goods companies with smaller SKUs and more elaborate storage, retrieval, and racking systems may prefer reach trucks, turrets, and pallet jacks to deliver to aisle and pick locations.

When looking at new forklift options, it's important for businesses to consider how they impact the overall design and execution of a warehouse facility.

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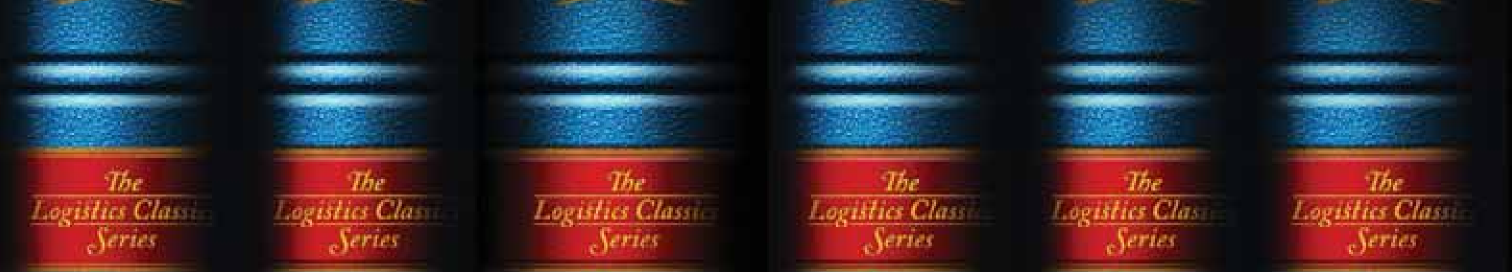

Gary recalls one customer that redesigned a warehouse to use VNAs, and invested in lift trucks that could operate within these tight spaces. Eventually, the cost of maintaining more expensive equipment, with greater upkeep, became problematic for the company. But revamping the warehouse to accommodate a new fleet set-up also came at an extraordinary cost, so the company was forced to continue with the status quo.

"Businesses need to consider the variety of forklifts they want to use, and how it impacts cubage. Many original equipment manufacturers hire consultants to help customers optimally configure their distribution centers," he says.

Beyond strategic planning, sourcing options vary, so businesses have to align their demand patterns to identify the best means for financing their fleets–from buying units outright, renting or leasing, or outsourcing fleet management to a third party.

"Most companies rent or lease their lift trucks. Dropping capital on equipment is not always the best option," Gary explains. "Regardless of whether you lease or buy, you still pay for maintenance. When you rent, you don't pay for upkeep but it generally is a more expensive option."

Lift trucks come in a variety of models for different applications and operating areas. Businesses need to mix and match fleet needs with their warehouse blueprint.

Leasing is popular, but businesses need to be careful about their contractual arrangements. Many companies have to pay for overage (hours used) after the lease is up.

"A third-party lease company often will assess machine use every month," says Gary. "During peak periods, warehouses will likely have overage hours. But if you look at use over the entire year, when there are months with less volume, there may not be overage hours. This is a negotiable coefficient, so businesses should look carefully at their lease arrangements and discuss these concerns at the beginning of the process."

Seasonality also challenges warehouses with planning out their forklift needs, which can similarly impact how they finance and manage fleets.

"Renting units for three or four months to meet peak volumes might be one option," adds Gary. "But it could be more economical to lease a machine for the year and keep it in the corner until demand dictates. You have to parse out your utilization needs."

Alternatively, companies can lean on third-party logistics providers to manage asset requirements and maintenance issues.

As with any piece of logistics equipment, properly maintaining lift trucks and training employees to use them are important steps in reducing total operational costs. Maintenance and training go hand-in-hand. If warehouse workers take care of their equipment, trucks have a longer life span.

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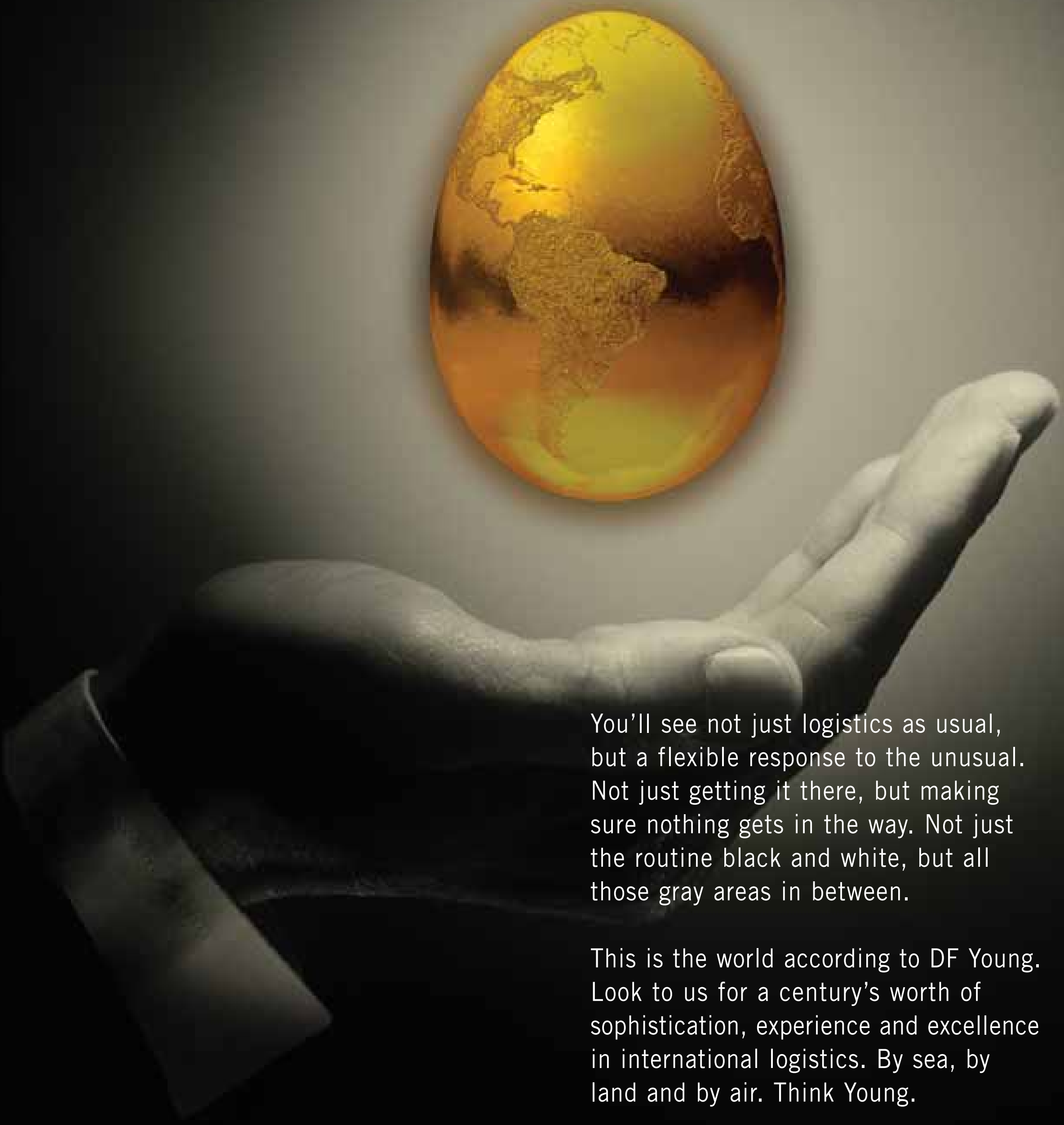

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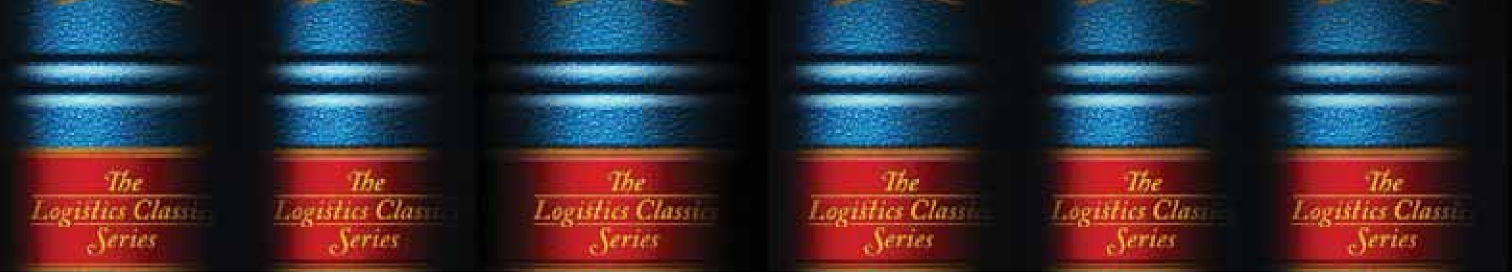

Maintaining forklift fleets and properly training operators can help companies improve labor management productivity and reduce total warehouse costs.

reality for our customers," explains Gary. "Most of the forklifts used in warehousing are comparable in cost to a BMW 318i. Operators are loose in the warehouse and are expected to produce a certain volume of work each day. The race is on, but often at the expense of care for the machine.

"Operators need to be trained properly on all forklifts," he adds. "Companies want to put drivers on a machine that they own to get better performance. This way they can track abuse and provide more driver training if necessary."

Truck abuse can be a major economic drain, costing companies $100,000 annually in repairs. Companies have to let operators know the ramifications of abuse–especially because contractual agreements and warranties will not cover misuse such as battery destruction.

For warehouses that utilize electric lift trucks, maintenance is especially critical when it comes to managing details such as battery care. Given the fact that 95 percent of forklifts used today are electric, companies have to look at where to locate battery charging and swapping stations. At the very least, improperly charged batteries can reduce a truck's lifespan; at worst, they can destroy equipment.

Beyond allocating resources to address battery usage, Gary recommends breaking out the total cost of the unit when soliciting forklift RFPs. "We break out the truck, battery, and charger because a lot of cost is involved in each," he says. "Manufacturers will bundle these together as part of a package."

Other details companies should consider when looking to reduce forklift costs and capture greater efficiencies inside the warehouse include:

- **Pallet selection:** Pallet housekeeping can keep lift trucks running longer. Composite pallets don't break up like wood ones do. Pallet jacks often chip off shards of wood and if these get into equipment such as lift trucks, they can contribute to maintenance issues. If a company invests in more expensive pallets, it may consider cost savings attributed to less vehicle abuse.

- **Parts replenishment:** Companies need to plan for replenishing parts. Creating a maintenance program with a dealer, or partnering with a third-party logistics service provider, can help manage fleet upkeep.

- **Invoice auditing:** Every forklift carries a warranty for parts and labor, so warehouse operators should carefully audit invoices to identify when the manufacturer covers maintenance.

- **Labor management:** When optimizing fleet use, businesses should look at operator shifts and performance. Are they picking, stocking, or sorting? Can they be stocking and sorting at night to better utilize assets and be more productive?

Forklift management isn't a one-time proposition. It requires continuous evaluation and planning to requisition and manage fleets efficiently and economically. Proper or improper utilization invariably carries over to materials handling and labor management functions.

"Businesses have to consider keeping enough machines to satisfy need," says Gary. "If they operate 95 units, can they get away with using 65? This would reduce the asset cost as well as associated labor and maintenance."

A forklift's value to the warehouse is immeasurable. But taking a measured approach to dissecting performance metrics and breaking out maintenance and labor costs can help uncover countless economies from the floor on up.

"Even as technology increases the way some companies employ their forklift fleet, the bottom line is that product must be moved from trucks to racks and eventually back to trucks again," says Gary. "The only tool that can accomplish this task is the forklift." ■

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Paying attention to the finer points of transportation and logistics management gives antiquarian routines a new pulse. For some companies, a fresh perspective serves as a baptism into supply chain management; for others, it provides a means for re-envisioning business processes through existing, sometimes neglected, functional scopes.

Such diligence pinpoints definitive whirs, hums, and sputters in an otherwise noise-ridden, data-deluged supply chain, offering contrast between what works and what does not. Taiichi Ohno, principal architect of the Toyota Production System, gave face to this process of "defect delineation," then elimination, by stressing the importance of the 5 Whys–a sequential line of questioning that identifies root problems when process exceptions recur.

Often perceived as a process for problem-solving, businesses may consider reengineering this approach to initiate a similar cascade of inquiries that explores how seemingly infinitesimal and inconsequential operational changes trigger far-reaching supply chain progressions.

But allocating the time and wherewithal to consider these details and ask these questions invariably leads businesses to find supply chain partners that can help.

World-worn branded lifestyle apparel manufacturer and distributor VF Corporation found a welcome logistics mentor when it partnered with LTL carrier Averitt Express about three years ago. The Greensboro, N.C., company has engineered sweeping change in its U.S. distribution network by utilizing Averitt's consolidation facilities to reduce transportation and labor costs.

On the surface, the return on partnership is abundantly clear: VF has greatly reduced shipping costs by consolidating LTL loads and carriers, and its stores are better able to manage labor hours with more consistent deliveries. Less visible is the evolving relationship, the collective mindshare and trust that has sprouted during this transition.

Companies often place a premium on developing strategic processes, supported by robust IT architectures, to seamlessly mine and convey information throughout the supply chain. But what really drives innovation and progress is the very fundamental aspect of

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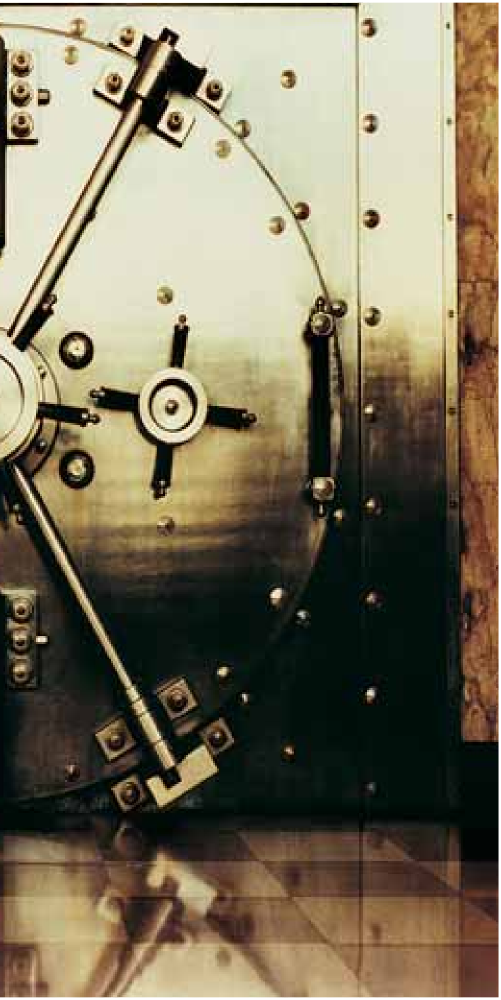

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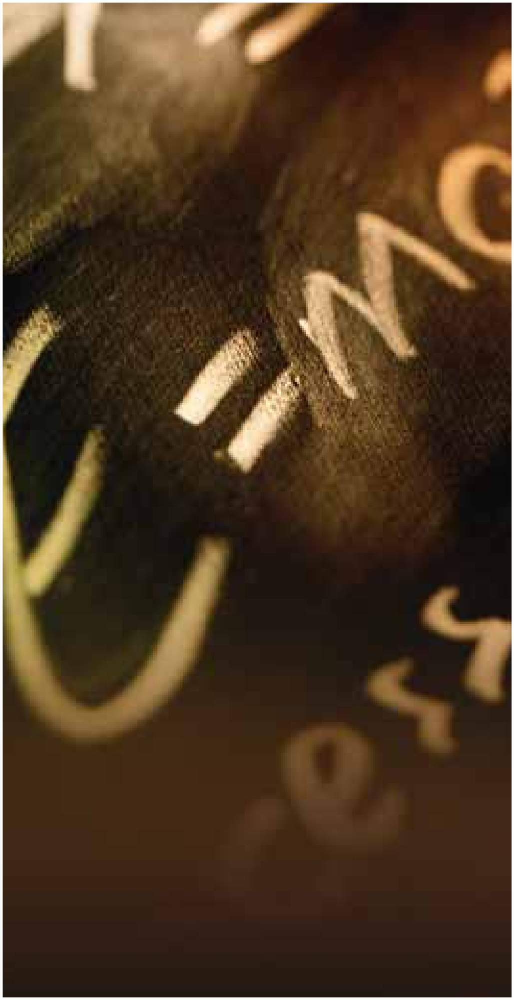

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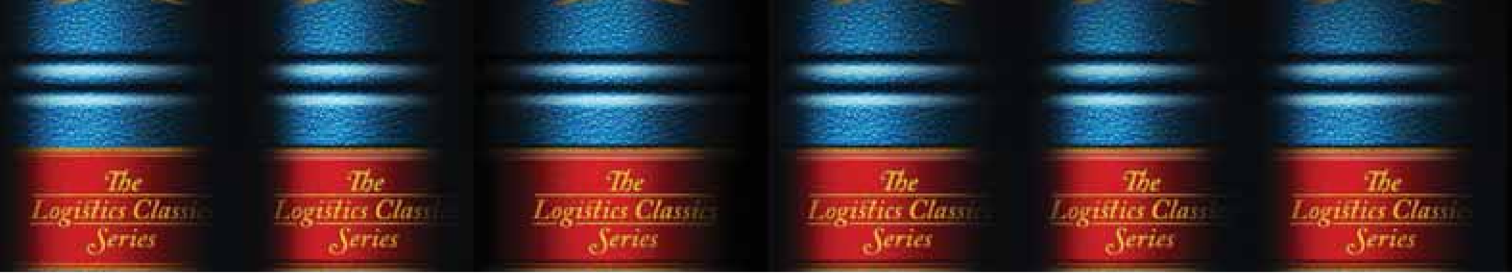

human collaboration–partnering for success.

"A true relationship starts with the honest sharing of information," says Pete Cicchetti, transportation manager for VF Corporation. "The ability to evolve is critical, as well as the need for a driver at both ends to make changes happen."

Case in point: Cicchetti recalls approaching Averitt with an idea to more quickly scan inbound pallets and eliminate idling and labor time in the shipping process.

"On a given day during peak season we have to scan 400 to 500 cartons at a clip, while trucks sit outside waiting for us to count cartons and verify receipts," he explains.

Averitt responded by creating a specific bar-code label scan that is more receptive and accurate in identifying cartons on a particular skid. In concert with this technology, VF is rolling out a complete visibility system that allows all its partners to see real-time inventory in the network.

Apparel company VF Corporation has built a collaborative partnership with Averitt that is supported by constant communication and attention to detail.

As yet another example of this partnership, VF's merchandising department approached Averitt with concerns over transit times on replenishment shipments–recurring and consistent orders that generate purchase orders, then prompt vendors to ship restock.

"Together we identified a key in the purchase order, that in accordance with our scanning technology, could immediately identify demand for replenishment items, and move them to the front of the line," says Cicchetti.

As a result, VF's stores have better visibility into inbound movements and can flex labor accordingly; and Averitt is making quicker turns and getting better productivity out of its resources.

Finding these types of inefficiencies and identifying measures to improve performance requires bi-directional communication between shippers and service providers. Technology exists to execute on ideas; but the questions and answers that bring these ideas to the surface spring from a shared vision.

"The key is having a constant dialog, a sense of trust, a partner that is willing to evolve with the business," says Cicchetti.

Partnerships give enterprises the latitude to address fundamental transportation and logistics disciplines. In their unique ways, each of these preceding examples offers a different purview into how shippers address and approach functional problems and solutions within their enterprise.

In today's environment, as businesses struggle to find new ways to squeeze out costs and inefficiencies without undue capital expense, identifying areas for improvement requires thoughtful deliberation. The very notion of contemplating transportation and logistics classics demands as much.

There are myriad approaches to mediating external, and unavoidable, market changes that threaten efficiency and economy. The same can be said for the many avenues businesses take to elicit broad-stroke changes that allow them to grow and prosper. Strategic thinking has a role to play. Technology investment and application yield considerable dividends as well.

But rediscovering the classics offers another opportunity. These functional areas of logistics and supply chain management have been tossed around, acted upon, and written about to nth degrees. One unique attribute of classical disciplines, however, is that new readers and converts see other means for appreciating their value. What one has interpreted this way, another will run with in a different direction.

Doing what every other enterprise does leads to generic and archaic methods for trying to stimulate fresh and creative ideas. In a competitive market, towing the status quo captures little ground, while often ceding much more. Companies that only consider the fashion of the times to envision the future fail to capture the relevance and importance of what has worked well before.

Alternatively, and with help from dedicated intermediaries, resources, and expertise, new-age enterprises can revolutionize age-old standards. Through these relationships, businesses rediscover and appreciate Logistics Classics anew. ■

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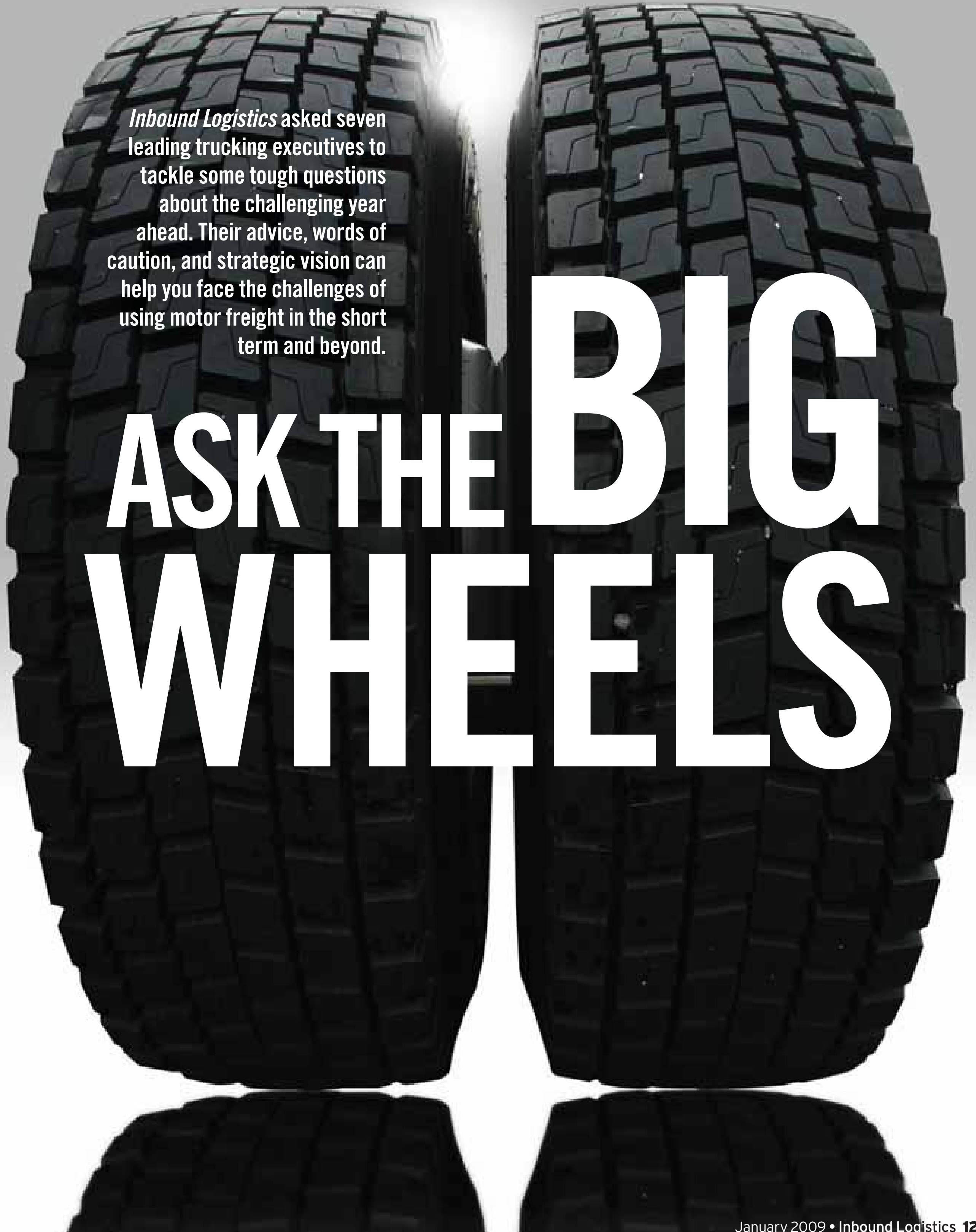

ASK THE BIG WHEELS

Inbound Logistics asked seven leading trucking executives to tackle some tough questions about the challenging year ahead. Their advice, words of caution, and strategic vision can help you face the challenges of using motor freight in the short term and beyond.

Teamsters Union president James Hoffa says struggling trucking companies should join financial institutions, banks, and even the automobile industry in seeking federal funds to stay afloat. **What's your take?**

SIMOURIAN

JOHN SIMOURIAN II (Lily): It shows what a circus this bailout has become. Politicians are pandering for votes with their televised meetings, and Hoffa for votes with his absurd comments in the press. How about we engage in serious discussion as to how to assist in fixing our economy?

We have auto companies going to Washington to get in line for a handout because they see others in line, not because there's a plan. They just want money to last for a few more months. In hindsight, it seems it was a mistake to allow Lehman Brothers to go under; however, pouring money into companies and taking equity stakes is not what capitalism is about.

What the government should be doing is: 1) getting the credit system to lend money that will free companies to grow again; and 2) training the jobless and putting them to work rebuilding the country's transportation infrastructure.

DAVID MILLER (Con-way): I do not believe a government bailout is the right thing to do, at least for the LTL freight trucking industry. The economy will recover and so will the overall transportation industry. Economic business cycles have a purpose–to cause companies to change and adapt in order to survive as the marketplace and customer needs evolve.

Some are faster and better at doing this than others. Companies that do this best will emerge as the winners. Our customers and our industry win when the market is allowed to remove either poor performance or outmoded business practices and find the right balance between capacity, demand, value, and profit.

STEVE O'KANE (A. Duie Pyle): The free enterprise system works. Many of our problems today are the result of government intervention encouraging the banks to loan money for homes people could not afford in the first place. As that plan created crisis more than a decade later, the government now feels the need to bail out the banks to keep our financial system from crumbling. Enough already!

Bailing out troubled companies either justifies inefficiency or perpetuates over-capacity. Either way, it puts the United States at a further competitive disadvantage in the global marketplace.

A.Y. BINGHAM (Bulkmatic): In principle, I am opposed to government intervention. If the government subsidizes a lot of capacity in this downturn, the remaining carriers will face unfair price competition. So whatever is offered–investment tax credits, for example–should be offered to all carriers, not just the struggling ones. On the other hand, if something is not done, shippers will face a very real capacity crunch when the economy turns.

> "How about we engage in *serious* discussion as to how to fix our economy? We have auto companies in line for a handout because they see others in line, not because there's a plan."
>
> —**John Simourian II,** President and COO, Lily Transportation

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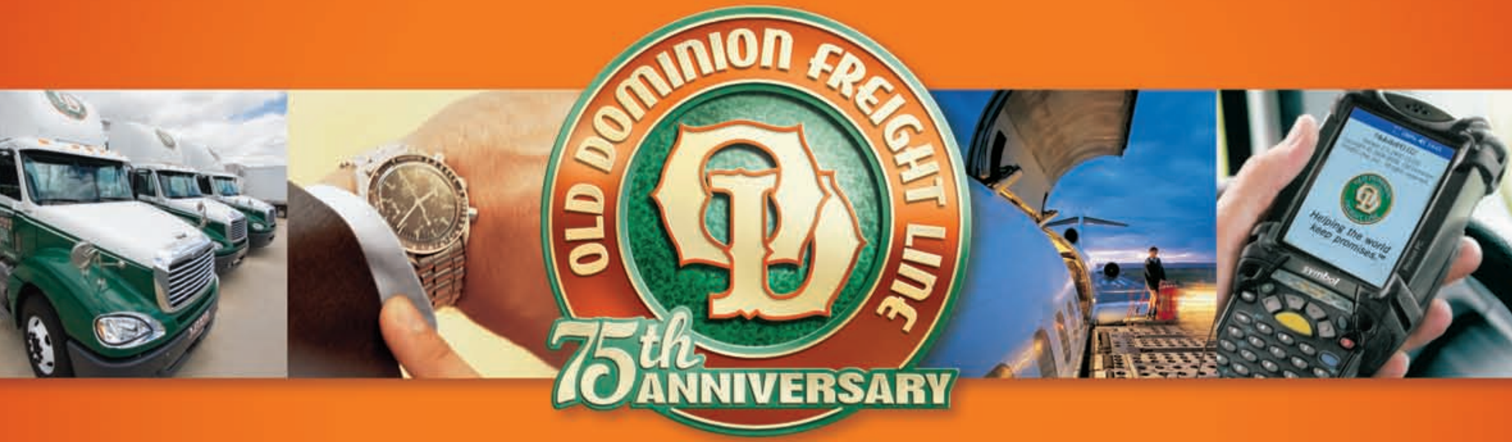

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What's your reaction to **cap-and-trade emissions legislation** being bandied about by some government officials?

DEREK LEATHERS (Werner): I am concerned about what cap-and-trade legislation will do to the price of fuel. We need to be very cautious as climate change legislation may further escalate fuel prices, with a corresponding increase in shipping costs.

DAVID MILLER (Con-way): I disagree with the idea of increasing taxes on an industry that already contributes substantially to maintaining and developing public highways, and uses that infrastructure to provide services that underpin the entire economy.

This industry has no choice but to be almost entirely dependent on carbon-based fuels to operate equipment. While some mobile sources of carbon and other greenhouse gases engage in discretionary activities, trucks do not. Trucks don't go sightseeing. They provide, in essence, a mission-critical service.

Cap-and-trade is a de-facto floating tax that will raise fuel prices. Of greatest concern to trucking is that none of the projected revenue from cap-and-trade legislation is currently being considered for investment in critical transportation infrastructure. Therein lies a serious disconnect.

We should settle for nothing less than an evidence-based, value-driven approach to the decision-making required to fix this country's infrastructure and help reduce the industry's environmental footprint.

KEITH LOVETRO (YRC REGIONAL): A downstream cap-and-trade system for the trucking industry would be problematic. With more than 500,000 motor carriers in the United States, the administrative process would look a lot different than it would for stationary emissions industries.

If we face an upstream cap-and-trade system targeted at the refinery level, the increase in fuel cost and the allocation of revenue generated from issuing the credits become primary concerns. It is imperative that any revenues generated from a cap-and-trade system are allocated back to infrastructure development, especially in reducing our nation's congestion chokepoints. By addressing congestion chokepoints, we can reduce emissions significantly by ensuring a smooth flow of traffic.

DAVID VAN ALSTINE (Schneider): While a properly constructed cap-and-trade program would recognize investments we have already made, and perhaps work to our financial benefit, we don't believe it is the correct approach. Europe has attempted a similar program on a far smaller scale and it hasn't worked.

Regardless, a cap-and-trade program would result in government control over the means and methods of production and the creation of a bureaucracy to manage the program. It would invite a tremendous expansion of lobbying and campaign abuses, for as the government expands its control, so does the need and desire of its citizens to compete for government largess. We believe that cap-and-trade legislation puts at risk the robustness of our economy–an economy that must be sustained in order to fund continuing efforts to further clean our air and water.

THE BIG WHEELS...

A.Y. (Butch) Bingham is president and owner of Bulkmatic Transport Company, a dry-bulk transportation carrier based in Griffith, Ind. Before starting Bulkmatic in 1970, Bingham worked for the New York Central/Penn Central Railroad and National Disposal. He holds an undergraduate degree from Brown University and an MBA from Northwestern University.

Derek Leathers is chief operating officer of Werner Enterprises, a truckload carrier headquartered in Omaha, Neb. Prior to joining Werner in 1999, Leathers was vice president of Schneider National's Mexico operation. Most recently, he helped guide Werner's expansion into Asia. A native of Texas, Leathers holds an economics degree from Princeton University.

Keith Lovetro is president and chief executive officer of Overland Park, Kansas-based YRC Regional Transportation, which includes New Penn, USF Holland, and USF Reddaway. Before joining YRC, Lovetro was executive vice president of marketing for DHL Express and president and CEO of FedEx Freight West. He is a graduate of the University of California, and earned an MBA from the University of Santa Clara.

> "Cap-and-trade is a de-facto floating tax that will raise fuel prices. None of the projected revenue from cap-and-trade legislation is currently being considered for investment in critical transportation infrastructure. Therein lies a serious disconnect."
>
> —**DAVID MILLER,** VP, Global Policy and Economic Sustainability, Con-way

A.Y. BINGHAM (Bulkmatic): Every time we make our transportation system more costly, we hurt our ability to compete globally. We are being hammered enough by new engine standards. Penalize the people who are polluting, not the ones who are doing the best they can with existing technology.

The costs of operating equipment in a capacity-flush, fuel-fixated economy have compelled some trucking companies to divest assets and pursue more scaleable non-asset services, such as brokerage and logistics. How will this development recast the trucking sector and **what do shippers need to know as they plan ahead?**

DAVID MILLER (Con-way): Someone has to own the assets that enable transportation service networks to be deployed and operated. It's the glue that connects every part of the supply chain, from supplier to manufacturer to shipper and consignee. This means that warehouses, freight terminals, technology systems, trucks, tractors, trailers, and well-trained and motivated employees have to be part of the equation. The owner of those assets needs an adequate return on the capital employed in order to reinvest in those assets and maintain the performance levels the customer requires. Shippers can choose how they utilize these assets–either directly with the asset owner, or through a third party that enables the shipper to gain additional value. It depends entirely on the shipper's supply chain strategy.

Smart shippers recognize that their strategy has to encompass more than a narrow focus on freight rates and fuel surcharges. They have to consider the fully landed cost of the transportation of their goods

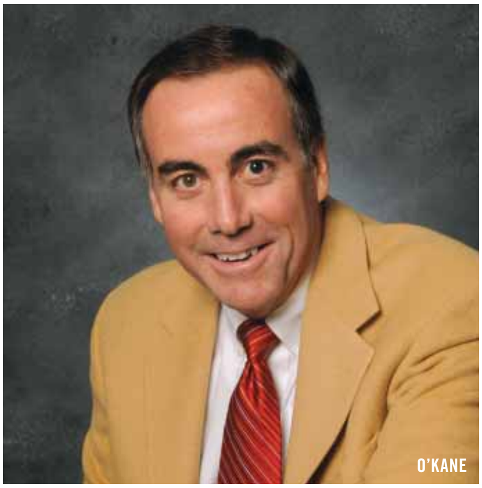
David Miller is vice president, global policy and economic sustainability for Con-way, Ann Arbor, Mich. A 34-year veteran of the freight trucking industry, Miller was named the company's top policy executive in 2008, joining the corporate executive staff from Con-way Freight, where he served as chief operating officer since 2007. He attended the University of Cincinnati and the University of Chicago Graduate School of Business.

Steve O'Kane is president of A. Duie Pyle, a West Chester, Pa., regional less-than-truckload carrier. With more than 30 years in the trucking industry, O'Kane joined A. Duie Pyle in 2006, after serving as president and CEO of New Penn Motor Express. He is responsible for the company's less-than-truckload, truckload, warehouse, and distribution operations. O'Kane holds an economics degree from Tufts University.

John Simourian II is president and COO of Lily Transportation, a Needham, Mass., dedicated contract carrier. Since joining Lily in 1986, Simourian has served on the board of the Center for Quality of Management, Cambridge, Mass.; Nationalease; and the Truck Renting and Leasing Association. He is a graduate of Bates College, as well as the executive education programs at the Harvard and Stanford Business Schools.

David Van Alstine is senior vice president/general manager of Schneider National's Van/Truckload division, based in Green Bay, Wisc. A 27-year industry veteran, Van Alstine has served in a variety of roles in transportation and logistics. In his current position, he is responsible for all aspects of the North American Van/Truckload division.

> "When demand exceeds supply, relationships will be turned upside down. Non-asset-based providers who've established reputations entirely on "lowest bidder wins the business" will find no one bidding in an over-demand environment."
>
> —**STEVE O'KANE,** President, A. Duie Pyle


O'KANE

and materials–and how a carrier contributes value to that equation. While there may be an internal battle as to whether increasing transportation costs are attributed to fuel surcharges or freight rates, carriers require increased revenue per shipment simply because all costs associated with providing trucking and logistics services have increased.

Regulatory policy changes have increased the cost of rules compliance. All petroleum-based products (shrink-wrap, grease, oil) have increased in cost. Employee wages, benefits, and healthcare have all increased, too. Diversifying services helps a company extend into other complementary, profitable offerings, which again must provide a measurable benefit to the customer.

STEVE O'KANE (A. Duie Pyle): There is currently significant motivation for trucking companies to participate in non-asset-based revenue streams. Almost all do, in one way or another. During times of significant over-capacity, the capital required and the liability created are not sufficiently rewarded on the asset-based side of the business. The laws of supply and demand, however, come into play over the complete business cycle. As significant capacity has exited the asset-based side of transportation, and because this sector has created revenue streams in the non-asset-based world, when demand exceeds supply, relationships will be turned upside down.

Those non-asset-based solutions providers who have established reputations as making decisions entirely on "lowest bidder wins the business" will find they have no one bidding in an over-demand environment. The day will come when they find it impossible to satisfy their customers because they have no assets to deploy.

Logistics providers that take a longer-term view of the marketplace and their relationships with asset-based providers will find value in the carrier partnerships they have fostered. While the non-asset-based world is attractive today, there will be a cycle shift and asset-based providers will enjoy a vastly improved return on their investment when demand and supply hit equilibrium.

KEITH LOVETRO (YRC REGIONAL): The LTL industry will continuously evolve and there will always be those companies that try to provide services using an asset-light or non-asset-based model. The key point to remember is that it takes assets – trucks, terminals, and a variety of other equipment – to move freight. The best thing a shipper can do is build strong relationships with its carriers.

DAVID VAN ALSTINE (Schneider): With a number of large carriers having publicly stated their intent to shrink the size of their fleets, the industry is poised to shift. The dearth of non-asset-based providers will make for a crowded market and stiff competition, all while shippers find themselves with fewer options to choose from for their long-haul moves.

But the winners in this scenario will be shippers who choose transportation providers that refused to follow this trend. Those carriers are definitely creating capabilities in asset-light solutions, but they're also continuing to grow and invest in the asset side of their business. That allows the shipper to enjoy the best of both worlds instead of being forced to choose between a direct line of sight to their freight and lower cost.

A.Y. BINGHAM (Bulkmatic): Shippers will be wise to look ahead, as well as control costs now. They need to be aware that there will be a major capacity crunch when the economy turns, so it might be smart for them to build relationships with carriers who they want to work with in the future.

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Q There's a perception, particularly among mid-sized firms, that **some carriers used strong-armed tactics and gouged prices when capacity was at a premium**. How can the trucking industry overcome these perceptions?

JOHN SIMOURIAN II (Lily): Let nature take its course. If those companies that feel gouged can find other carriers, they should switch to them. If not, negotiate the best deal and move on.

DEREK LEATHERS (Werner): Some shippers absolutely have a right to feel that way if a provider was not living up to the commitments in place and instead utilizing market conditions as a justification to leverage price. Obviously, over the past two years, that situation has reversed itself. A number of shippers now use those same tactics to force carriers into handling shipments at non-sustainable pricing levels because they have no other options available to them. Once shippers and carriers engage in this cycle, it becomes difficult to break.

Both shippers and carriers need to ensure there is agreement regarding commitment levels and the manner in which they agree to conduct business.


LEATHERS

> "A number of shippers force carriers into handling shipments at non-sustainable pricing levels. Once shippers and carriers engage in this cycle, it becomes difficult to break."
>
> —**DEREK LEATHERS,** COO, Werner Enterprises

From a shipper's perspective, it's fairly easy to ascertain how a carrier has conducted business during both robust and lean times. If a carrier has a relatively smooth rate-per-mile chart over time, it has taken a long-term, commitment-based approach. If a rate-per-mile trend vacillates significantly, it is taking a shorter-term, market-based approach.

DAVID MILLER (Con-way): Generally, I believe the markets reflect realities – when there is an abundance of carrier capacity, rates are negotiated downward. When capacity is tighter, prudent shippers negotiate longer-term contracts, with rates commensurate to existing capacity, and ensuring the carrier gains a fair profit to support continued investment.

STEVE O'KANE (A. Duie Pyle): The supply and demand system works in two directions. When supply is tight, prices tend to rise as capacity is rationed on an economic basis. That knife cuts more sharply in the opposite direction, however. When capacity exceeds demand, in a highly leveraged business such as trucking, prices can spiral down rapidly.

Many firms take a long-term view with their suppliers and try to develop loyalty by not taking advantage of the circumstances when the supply of trucks exceeds demand. When the market shifts, they then require rate increases to be cost-justified and expect restraint from the carrier.

In a period of over-capacity, however, when the carrier has priced at a rate level that is non-sustainable for the long term, it is certain the carrier will look for a significant increase, or "trade up" the quality of its business when the supply and demand dynamic changes. Long-term relationships between shippers and carriers are the best defense against the possibility of extreme rate swings.

DAVID VAN ALSTINE (Schneider): Most carriers know how vital it is to stay focused on building long-term relationships with their customers, rather than taking advantage of short-term market conditions. Unfortunately, there were situations in which some carriers acted too aggressively in leveraging the market several years back.

While carriers can't ignore market conditions if they want to remain in business, they can find a way to create a fair and balanced approach when dealing with shippers. The transportation industry can strengthen its reputation by engaging in discussions with shippers that are centered on how the carrier can continue to provide value. This will help both parties create a mutually beneficial relationship that can survive the ups and downs of the market and, at the same time, avoid the current feeling of being either a "winner" or a "loser."

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Q

When the economy was strong and capacity was tight, many small and mid-sized companies felt pressured to seek rate relief and service from brokers. Many companies prefer to deal directly with carriers but are fearful of severing established broker relationships. **What will the trucking industry do to relieve those concerns relative to a firm's long-term planning capabilities?**

DAVID MILLER (Con-way): There have always been opportunities for broker relationships – these times are no different. It's an important part of the mix. Dealing directly with asset owners, however, allows the shipper to better understand the challenges and issues that carriers face in providing service value.

Not all trucking companies are created the same, nor do they perform the same. The value a shipper gains from a broker relationship depends on the ability of that shipper to manage its own transportation needs as opposed to relying on a specialist for that capability.

> "Not all trucking companies are created the same, nor do they perform the same. The value a shipper gains from a broker relationship depends on the ability of that shipper to manage its own transportation needs as opposed to relying on a specialist."
>
> —**DAVID MILLER,** VP, Global Policy and Economic Sustainability, Con-way


MILLER

STEVE O'KANE (A. Duie Pyle): Trucking companies are in the interesting position of both competing with, and being vendors of, the broker community. Shippers have the option of moving their freight with either entity, and need to determine the value brought to them by their broker relationship.

Obtaining the best possible value from any provider is a difficult and often time-consuming job. Shippers must decide if they have the expertise to handle that task through their own purchasing channels, in which case dealing directly with the carriers makes absolute sense. If not, outsourcing the competitive shopping can be a wise choice–as long as they communicate their desired balance between predictable service and price to their broker of choice, and are able to determine that a third party, who also plans to profit from the transaction, adds sufficient value to the selection process.

DAVID VAN ALSTINE (Schneider): It makes sense that customers miss the close contact and direct line of sight to their freight that comes with a carrier/shipper relationship. Yet asset-based carriers also recognize and understand their concern about severing ties with the broker they relied on in tight times.

In fact, this hesitation is part of the reason so many carriers have expanded their service offerings to include brokering. Ultimately, carriers know it's becoming increasingly important to offer broad, low-cost capacity solutions.

Not only does this allow carriers to meet the needs of their customers, but it also gives shippers confidence that we're truly looking out for their best interests. A carrier that offers access to more capacity makes it easier for the shipper to solidify the relationship for the long term. Hopefully, giving shippers those options will help them realize carriers are serious about providing long-term value to them.

A.Y. BINGHAM (Bulkmatic): Brokers are a part of our industry. They obviously provide a service that is in demand. It is up to each carrier to tailor its service to meet particular customers' needs. To the degree that brokers meet customer needs, they will gain or lose confidence in them. It won't happen quickly; it takes time to earn confidence.

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Q What structural changes do you see in the way **over-the-road shippers mix, match, and broadly manage truckload, less-than-truckload, and intermodal transportation**?

DEREK LEATHERS (Werner): At the macro level, decisions are much less mode-specific, and more about the most cost-effective manner for ultimate delivery that meets specific service parameters. To facilitate this, shippers are examining their own networks, inventory flow, and available tools to assist in mode optimization decisions. Shippers are either investing and purchasing those tools themselves, or working with companies that possess both the actual modes and optimization tools for strategic and tactical decision-making.

KEITH LOVETRO (YRC REGIONAL): Shippers are looking more closely at their order fulfillment and freight flow processes so that they're better able to match various modes and services to their transportation needs. These changes require more real-time information and flexible operations from both the shipper and carrier. Examples of these include time-based window deliveries, merge in transit, pool distribution, and multi-stop truckload shipments.

DAVID VAN ALSTINE (Schneider): Transportation providers that offer multi-mode options are far better positioned to meet a shipper's broad needs for reliability, cost, and capacity.

For example, a diaper-manufacturing plant that used to ship everything by truck might now choose to send some loads via intermodal service. If there isn't a specific order being fulfilled and the plant merely wants to move the diapers to an off-site warehouse, the intermodal offering is less expensive and will meet the less-demanding speed of delivery requirements. However, if the diaper manufacturer has a specific order destined to arrive at a customer by a pre-determined date, chances are it will select the truckload option, which offers faster service and more direct freight tracking.

Shippers are faced with an ever-changing series of trade-off decisions, and providers can create options helping to balance these trade-offs.

A.Y. BINGHAM (Bulkmatic): We are seeing more interest in rail-to-truck bulk transloading to reduce costs, as well as a shift in moving some volumes from Class I railroads to short lines.

Q In what ways are you **helping shippers probe deeper in the supply chain to gain greater control** over product movement?

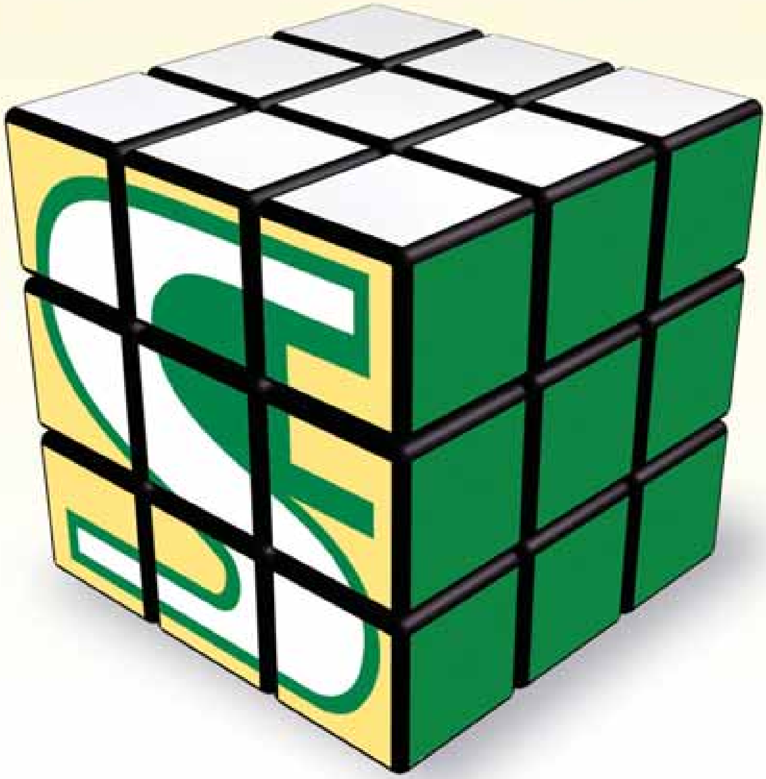
JOHN SIMOURIAN II (Lily): We are using transportation as a change agent and engineering the supply chain from outbound delivery back into production to help shippers find the most efficient cost per unit delivered.

DAVID MILLER (Con-way): Much of the transaction interaction and reporting that used to be done over the phone or on paper now is done via our Web site, which provides speed and convenience to customers. Web-based tools make access to, and usability of, critical shipping information much more timely and accurate so shippers can better manage their transportation spend and supply chain cycles. It's information that can be shared broadly and has value up and down the supply chain.

KEITH LOVETRO (YRC REGIONAL): We are currently expanding functionality in our global purchase order management application, which allows factories to book shipments with YRC Logistics directly against purchase orders they are fulfilling for our clients. The tool provides visibility into what customers' vendors are planning and can be customized to help enforce client-specific standard operating procedures. The tool moves beyond traditional purchase order management to managing inventory in motion, providing tracking visibility of specific line items, such as SKUs.

DAVID VAN ALSTINE (Schneider): With the world becoming a global marketplace, shippers need more and more visibility to–and control over–their freight as it moves from point-of-origin to final destination. Therefore, logistics providers have to put the processes and technologies in place to meet that growing need.

Schneider has been focused on doing that over the past several years. Thanks to strategic acquisitions in the United States and abroad, we can provide door-to-door service for shipping partners, handling product from an international manufacturing plant to the port, across the seas, then through the last mile to the customer. Because of the connections and technology we have access to, shippers know where their goods are every step of that journey.



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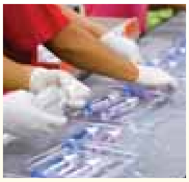

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Q When planning ahead and designing long-term strategic efforts, **how far out do you look? Why? How far out should shippers be looking?**

DAVID MILLER (Con-way): As a general rule, we look forward 12 and 36 months for capital planning, but this is subject to how well we are able to determine the direction of the economy. That's pretty tough today. The economic downturn's speed, severity, and impact have been dramatic.

The new political landscape will also affect how we plan and invest. We can expect changes in policies and regulations that govern the transportation industry. Different agencies may take a more aggressive role in regulating business and thereby impact any company's service offering.


LOVETRO

> "Looking into the future is a challenging exercise. The best way to understand this is to talk with customers about their plans, needs, and activities that shape their businesses. We use that knowledge to make a three-year plan."
>
> —**KEITH LOVETRO,** President and CEO, YRC Regional Transportation

One thing we can bet on is that there will be continuing fallout in the transportation industry. Current trends in credit availability and financial liquidity will impact some players differently than others, allowing some to survive and others to fail. Shippers have to factor these realities into their planning process as well.

STEVE O'KANE (A. Duie Pyle): If you are not projecting out at least a decade as to what your business might look like, only luck can bring you success.

While this exercise can be frustrating–because the farther out you look, the more likely you will be inaccurate–it is valuable to anticipate what the future holds. Developing that long-term view of a "winner's profile" for your industry provides substantial guidance and insight as to what your one-, three- and five-year business plans should be.

In the fast-changing transportation world, we look out 10 years to make facility decisions that can often take a full five years to complete from land search through permitting and construction. We spend more time determining where we want to be in three years, then devote the greatest effort into what we need to accomplish in the next 12 months to stay on track for the three-year plan. Unless you start out with a vision for the future, determining the necessary steps required to be successful in achieving that objective, near-term planning will not have sustaining value.

KEITH LOVETRO (YRC REGIONAL): Looking out into the future and trying to predict where things are going is a challenging exercise. We've found the best way to understand this is to talk with customers about their plans, needs, and various activities that shape their businesses. Once we understand a customer's perceptions, we use that knowledge to make a three-year plan. Anything beyond three years gets pretty fuzzy and is only good from a directional point of view.

DAVID VAN ALSTINE (Schneider): Our three-year planning process feeds into a one-year budgeting process completed annually. In order to make sure we are planning our future with customers in mind, we engage them in these processes. This helps us determine where to expand and invest in technology, equipment, and geography for the coming year. Shippers should engage their carrier partners in planning efforts to ensure all parties are best prepared to contribute to the company's success.

A.Y. BINGHAM (Bulkmatic): We used to look 10 years down the road, but the rate of change is such that we now only look three years ahead. Most of our shippers are looking further ahead, often at least five years. Sadly, there are some still trapped in the present quarter.

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- Gerald Birin, ***CEO, MHKnitwear Inc.***

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Q **Some previously dire concerns – driver shortages, infrastructure, capacity, urban congestion – have been overtaken by** a down economy and soft demand. Is progress being made on any of these fronts? Or will these issues become exacerbated when the economy rebounds?

JOHN SIMOURIAN II (Lily): Can't we use this time as a wake-up call to action and help get the economy moving? Reduce joblessness by using a spending plan on our infrastructure? Roadways, bridges, tunnels, and rail beds all still need massive improvement. It will take billions of dollars and thousands of people to rebuild current systems and add infrastructure improvements for the future so we can remain competitive.

DEREK LEATHERS (Werner): Although initiatives are at various stages in these areas, those challenges have been masked by the lack of equilibrium with supply and demand in this sector. We anticipate all of the aforementioned issues to pose challenges to the industry upon an economic rebound. Capacity shortages are anticipated as record numbers of trucks left the road in 2008. Driver demographic trends have not changed, and labor challenges will swing back around when housing and other industries rebound and compete for the same employee base as trucking companies.


VAN ALSTINE

> "It's absolutely crucial that shippers, carriers, and government agencies focus on resolving long-term issues even in today's economic environment. Failing to give these problems due attention only compounds them."
>
> —**DAVID VAN ALSTINE,** Senior VP/General Manager, Schneider National (Van/Truckload Division)

DAVID MILLER (Con-way): We continue to deal with these issues; the slack economy has not made them go away. In some instances, they've probably gotten worse.

None of the underlying issues causing driver shortages, insufficient infrastructure, capacity constraints, energy concerns, or urban congestion have been effectively addressed. Once the economy does rebound, it will only sharpen the focus on the need to address these issues.

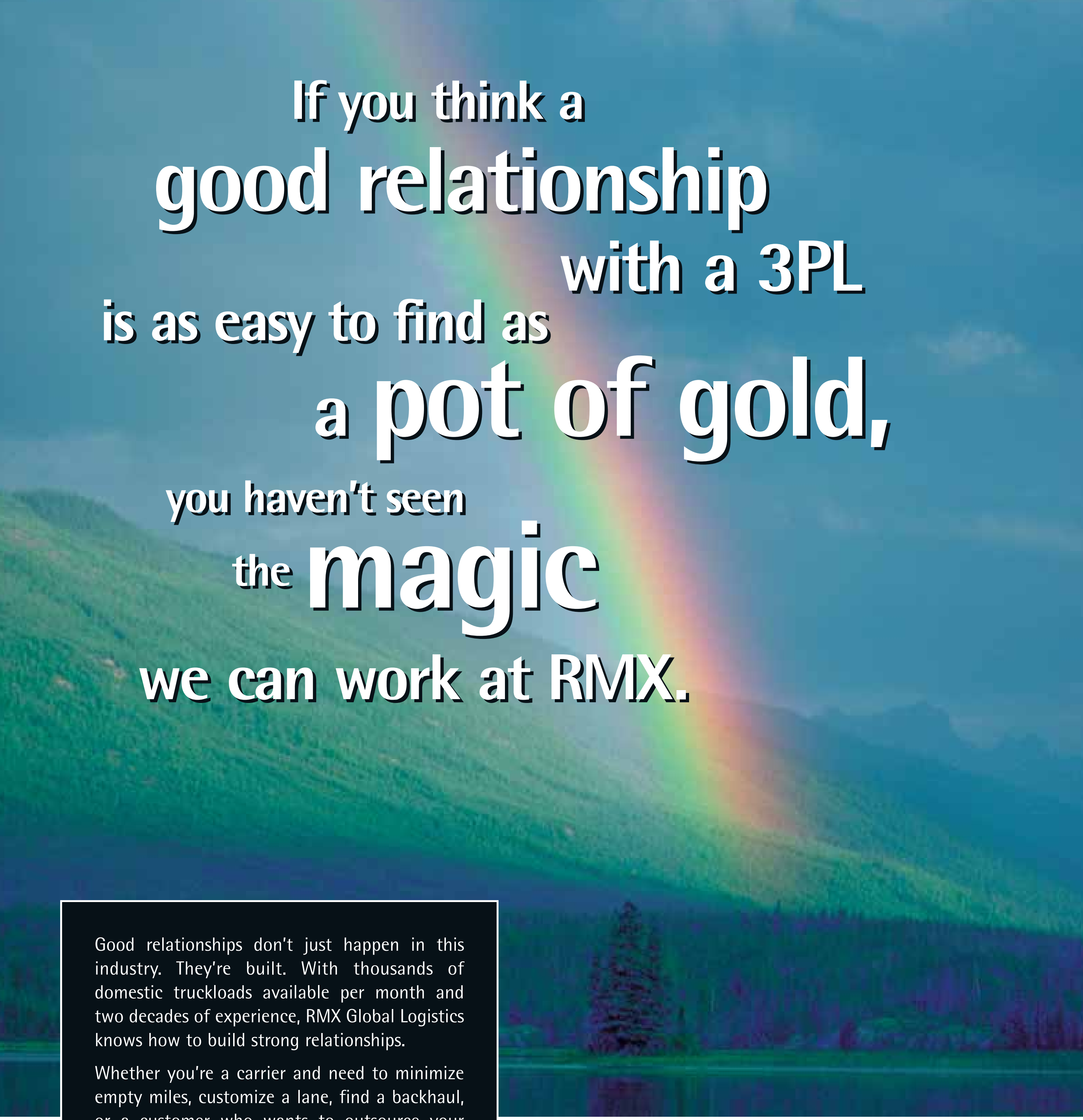
KEITH LOVETRO (YRC REGIONAL): To ensure that the transportation industry remains vibrant, we need to invest in our roads and bridges and have access to an appropriately skilled workforce. The current economic slowdown has provided a bit of breathing room, but these issues must be addressed in a long-term plan. The currently proposed infrastructure stimulus package will help address some road and bridge issues, but more is needed to create an available workforce that is well-trained and ready to meet the industry's changing needs.

DAVID VAN ALSTINE (Schneider): Unfortunately, the short answer is this: Not enough progress has been made in resolving these challenges. As a result, the basic, underlying causes will indeed become exacerbated when the economy picks up steam.

The fundamental demographics of the driver shortage issue haven't changed, so even though the economy is making it relatively easier to hire and retain drivers now, prevailing industry trends will return in full force. As a result, capacity will tighten.

It's also hard to relieve problems as massive as urban congestion and infrastructure when state leaders are continually being forced to balance current budgets by taking funds from longer-term projects and using them for short-term ones.

Though difficult to do, it's absolutely crucial that shippers, carriers, and government agencies focus on resolving these long-term issues even in today's economic environment. Failing to give these problems due attention only compounds the issues. Because all require multi-year solutions, any delay only adds to the damage that will need to be repaired down the line.



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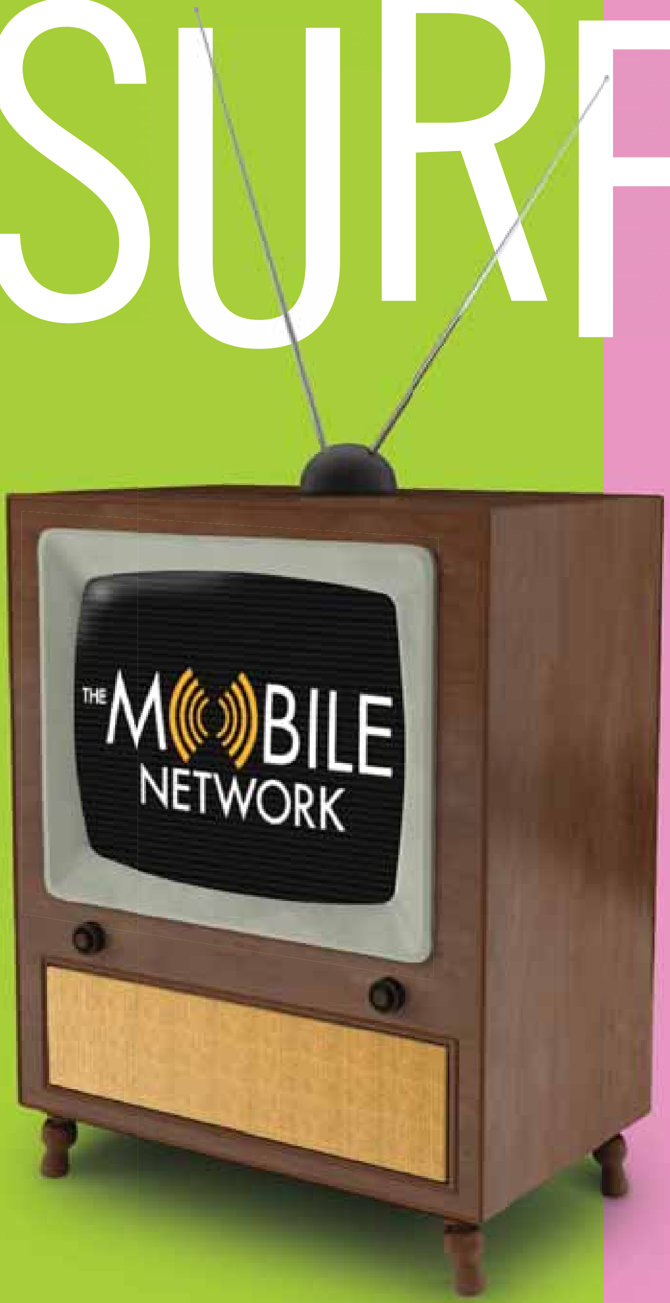
CHANNEL

Click...Click...Click.... Consumers' short attention spans demand greater shopping flexibility. For some retailers, that means it's time to flip the supply chain processes behind their sales channels.

SURFING

by Merrill Douglas



SHOPPING HAS COME A LONG WAY SINCE THE BLACK-AND-WHITE DAYS OF TRADITIONAL RETAIL STORES. Want to shop for a digital camera online but pick it up at the mall? No problem. See a sweater on the rack that your daughter would love but can't find her size? Have the clerk order it on the company's Web site, ship it to your daughter's home, and e-mail you a link so you can track the delivery online. How about that jacket in the window of the Polo Ralph Lauren store? Use your camera phone to scan a code attached to the item, then make the purchase from your screen.

Call center orders, e-commerce, bricks-and-mortar–to consumers faced with a growing number of choices, it's all just shopping.

"Shoppers want a good purchasing experience that's consistent across all sales channels," says Nikki Baird, managing partner at Retail Systems Research in Miami. The continuing boom in e-commerce, along with pressure from customers to merge sales channels, is forcing retailers to rethink their fulfillment strategies.

DISTRIBUTION DECISIONS

For companies that operate stores and sell products through their own Web sites, the classic strategy is to maintain two distinct distribution networks. Many retailers still follow this course, with good reason. Shipping large, complex orders to replenish stores and shipping small orders directly to consumers present two very different business challenges.

For example, when a company picks a location for a distribution center to supply its stores, it considers the distance to those stores and what it will cost to serve them with full or partial truckloads. When it chooses a DC for direct customer fulfillment, though, it considers a different question: How quickly and cost effectively can it ship small parcels from this location to customers, wherever they happen to be?

"For direct fulfillment, businesses typically try to locate near the hub of a major parcel service provider," says Bob Spieth, president of the contract logistics division at OHL (formerly Ozburn-Hessey Logistics) in Brentwood, Tenn. A company fulfilling e-commerce orders from the Memphis area, for example, can bring parcels to the FedEx hub as late as 11 p.m. and still get next-day delivery.

Depending on the company, the best solution for e-commerce fulfillment might be to hold inventory in one location or use several DCs to minimize transportation time and costs.

"To determine how many DC locations they need, shippers should compare the cost of maintaining inventory and handling stockouts against the benefits of reducing transportation expenses and improving service levels," Spieth says.

Inside the warehouse, e-commerce fulfillment also looks different than store replenishment. "Order size makes a big difference in how warehouses pick, pack, and ship product," says Daniel Napoli, chief executive officer at Ossining, N.Y.-based Knighted Computer Systems, provider of a warehouse management system (WMS) that supports multichannel operations.

"For example, employees picking to fulfill e-commerce orders may have to travel all over the warehouse to retrieve single items and match them up for shipping," he says. "But when fulfilling to their own retail stores, shippers try to optimize as much as possible for a particular zone."

Also, while many retailers beef up DC staff to accommodate holiday traffic, e-commerce makes the demand for temporary labor especially acute.

"The seasonality of direct-to-consumer shipping is very high," says Spieth, with a steep peak occurring between Thanksgiving and December 20. Many orders that come through a Web site during that period require labor-intensive services, such as gift wrapping and inserting personal greeting cards. In addition, "there will be a significant number of returns compared to shipments into stores," he notes.

BUY ANYWHERE, DELIVER ANYWHERE

There are plenty of solid reasons to separate inventories for store sales and Web sales. But running those operations in different buildings, or even in different sections of a single warehouse, also presents drawbacks. Notably, the dual-inventory strategy holds back companies that want to provide a "buy anywhere, deliver anywhere" experience.

With products for the brick-and-mortar and e-commerce channels sitting in different locations, often managed by different software, retailers find it difficult to offer online ordering with store pickups, or in-store shopping with home delivery.

"Now that retailers are trying to bring these channels closer together, many early decisions made for expediency's sake and e-commerce growth are coming back to haunt them," Baird says.

Some companies have tried to use point-of-sale (POS) systems to bridge the gap between channels. But these efforts are largely unsuccessful because POS systems can't handle order management. The software also needs the intelligence to direct an e-commerce order to a particular store, track it, and close it out when the customer picks up.

Recently, software vendors such as Sterling Commerce, Dublin, Ohio, and Boston's Order Motion introduced software to close this gap. Knighted's WMS also offers a back-end bridge between sales channels. Companies using this software may either keep separate inventories for stores and e-commerce sales or run an integrated DC.

"Knighted's WMS can run in a multichannel environment in the same warehouse," Napoli says. The picker who's taking down cases of goods at 10 a.m. might be picking "eaches" an hour later, simply following whatever instructions come from the WMS.

"He has no idea if he's picking for retail, direct, or catalog; he's just picking and processing," Napoli notes. The software tracks the day's demands, setting work priorities based on channel needs and carrier schedules.

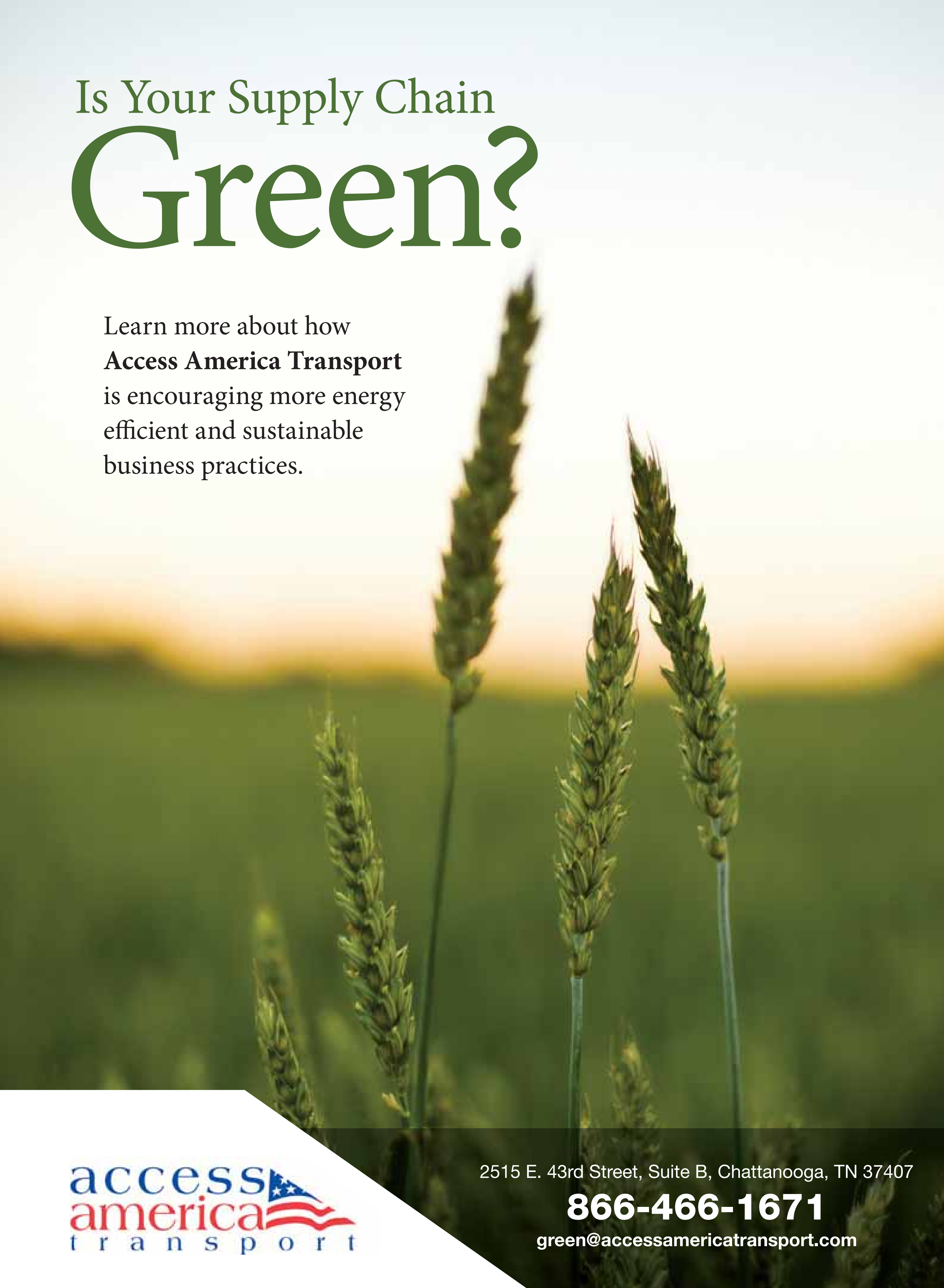
Combining inventory cuts the risk of depleting stock for individual channels and reduces space and labor requirements.

A SWEETER STRATEGY

Integrating the supply chain to support different channels doesn't need to be an all-or-nothing proposition. For Harry and David, a leading merchant of gourmet fruit and food gifts, merging just part of the transportation network for stores and direct sales has paid off in lower costs and enhanced customer service.

Harry and David's direct marketing channel dates back to 1934, when brothers Harry and David Rosenberg started selling their Oregon-grown Royal Riviera pears by mail.

Today, Harry and David sells a variety



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of fruits, confections, gift baskets, and other treats, shipping to customers and selling through approximately 134 stores, including the flagship Country Village Store at company headquarters in Medford, Ore. In the late 1990s, Harry and David added an e-commerce channel; the company also wholesales to big box chains such as Costco and Sam's Club.

Harry and David produces about 80 percent of the product it sells via the direct marketing channel and about 60 percent of the product sold in stores. It ships year-round from DCs in Medford and Hebron, Ohio. To help with holiday traffic, each year it leases space in three or four third-party warehouses, strategically located across the United States and stocked with its best-selling SKUs.

Fine-foods purveyor Harry and David offers its premium fruit and gourmet snacks through its own retail stores, big box chains, and e-commerce channels, but uses one delivery network to save fuel and cut transit time.

Until this year, Harry and David used separate transportation networks to deliver product for its retail and direct marketing business units. The company contracted with refrigerated carriers to deliver to stores every other week.

"We loaded a truck with approximately 20 pallets, making five to six delivery stops," says Philip Littleton, Harry and David's corporate vice president of logistics. Refrigerated carriers also moved the direct orders to UPS hubs for last-mile delivery to customers.

Managing transportation separately for each business unit wasn't the most efficient strategy. "We were dispatching two different refrigerated carriers to the same cities, states, and transportation networks," Littleton says.

In July 2008, the two units started co-loading freight for long-haul transportation. Parcel carriers–generally UPS, but sometimes the U.S. Postal Service or FedEx–still make last-mile deliveries to e-commerce and catalog customers. For store deliveries, the company has developed a similar hub-and-spoke approach.

"We have contracts with small, temperature-controlled LTL carriers to deliver the last mile to the stores," Littleton says.

Consolidating the two delivery networks cut Harry and David's fuel costs and halved delivery time for both channels.

One distribution challenge Harry and David faces in both channels arises from local ordinances that restrict the times of day when carriers can make deliveries. "We've had to adjust both channels to meet shipping schedules and make delivery appointments to the UPS hubs," says Littleton.

Another challenge springs from the volatile market that Harry and David serves, especially in the direct marketing channel, where gift-giving far outweighs personal consumption.

"In today's economy, gift-giving is slightly down," Littleton says. "But when gift orders do come in, they're in large quantities."

Corporate gifts comprise a large portion of Harry and David's direct sales. "Certain corporations place 10,000-item orders and expect a rapid turnaround," Littleton says.

Harry and David draws on five to six years of historical data to forecast corporate orders, adjusting the numbers according to economic conditions. The company also contacts regular customers early in the season to gauge their buying intent. These tactics help Harry and David develop a good feel for which fruit boxes, chocolate towers, or deluxe gift baskets are likely to sell.

"Forecasting makes it easier to evaluate the SKUs and quantities to produce," Littleton says.

FULFILLMENT WORRIES PUT TO BED

For a small retailer, one simple solution for replenishing store inventory is to place an order on the e-commerce channel, just like a customer. That's how they do it at Keetsa, which sells earth-friendly mattresses and other sleep products through its Web site and from three stores in San Francisco, Berkeley, and Fairfield, Calif.

Keetsa debuted in September 2007 as a Web-only business, but it soon started opening stores. "We learned very quickly that the Internet will never dominate in sleep products because people want to lie on a mattress before they buy it," says Joe Alexander, the company's director.

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flat, vacuum-seal it, then fold it into a small box. That simplifies shipping and allows in-store customers to take a mattress home in their cars.

To fulfill online orders, Keetsa contracts with Shipwire, a Sunnyvale, Calif.-based Internet fulfillment company. This strategy spares Keetsa the work and expense of running a warehouse and shipping products, allowing it to focus on sales.

Keetsa currently keeps product at Shipwire's warehouses in Los Angeles and Chicago. In the near future, it plans to start using one or more Shipwire warehouses in Canada, too.

LEVELING THE PLAYING FIELD

Dividing product among several warehouses gives small Web merchants the same advantage that larger companies net from their distribution networks.

"Small retailers can move inventory closer to end buyers and cut shipping costs," says Nate Gilmore, vice president of marketing and sales at Shipwire. This is a particular advantage for U.S. companies trying to extend their reach outside the country. By holding some inventory in Shipwire's Canadian warehouses, for example, Keetsa won't have to ship internationally to fill individual orders. "It will save on cost, delivery time, and hassle," Gilmore notes.

Keetsa owns a manufacturing facility in China, from which it ships products via ocean to Los Angeles. "Products are picked up at the dock and trucked to the Shipwire warehouse," Alexander says.

When Shipwire receives a shipment, it first checks to make sure the product matches the merchant's expectations. "We measure and weigh the shipment to ensure that the product is what the merchant expected. If not, we work with the merchant to solve the problem," Gilmore says.

Shipwire provides merchants with software tools that link the shopping carts in their e-commerce software to Shipwire's own information system. This connection lets Shipwire receive order information and push order status and inventory details back to the merchant.

"Shippers can get order history and tracking information for any shipment," Gilmore says. "They can also get a series of reports on shipment status, as well as all the inventory information at any time."

While storing most of its inventory at Shipwire's warehouses, Keetsa keeps two or three of every SKU at each store. When a store needs more product, employees use the Internet to conduct a transaction, much as customers do.

"We order from Shipwire, and it arranges the FedEx shipment," Alexander says.

Using Shipwire to fulfill inventory needs at the stores wasn't the original plan. "But as business picked up, we had more demand for product and began running low on inventory," says Da Nnie Lee, Keetsa's chief operating officer. With limited storage space at the stores, keeping the optimum quantity of each SKU at each location was becoming difficult. Now Shipwire moves inventory into the stores as needed.

Keetsa's eco-friendly mattresses rest easy in Internet fulfillment company Shipwire's warehouses until they're shipped to customers.

Because of its business volume with carriers such as FedEx and UPS, Shipwire can negotiate discounts, keeping shipping costs lower than Keetsa expected. "We earn the volume discount whether we ship to customers or to our stores," Lee says.

Just as Keetsa employees go online to replenish store inventory, an occasional customer who comes into a store to test mattresses goes to the Web site to purchase. "About 20 percent of Keetsa's customers are unable to pick up the mattress, so Shipwire delivers it to their homes," Alexander says.

Reverse logistics is a simple matter. In the rare event that a mattress is defective and a customer needs to return it, Keetsa has a local service provider haul it to a recycling facility.

MULTI-CHANNEL MADNESS

While many retailers puzzle over how to integrate their sales channels, one sporting gear and apparel chain has already aced the test. Moosejaw, headquartered in Madison Heights, Mich., caters to the kind of young, hip shopper who uses an iPhone to order a kayak paddle, or expects to pay for a hoodie in the store using a PayPal account.

"We are trying to be the first true multi-channel retailer," says Jeffrey Wolfe, owner and chief operating officer of Moosejaw. "We want to blur the line between Web, call center, catalog, mobile, and retail shops."

With that goal in mind, Moosejaw has created a single database using IBM's WebSphere Commerce platform to capture information on all customer purchases, no matter how they originate. Moosejaw's vendor, New York-based CrossView, implemented the IBM solution, along with a point-of-sale system that sits on top of the database "the same way our Web sites and call center sit on top of it," Wolfe says.

Moosejaw customers have many shopping options. They may leave a store with their merchandise, ask an employee to order an item that's not in stock, phone the call center to buy from the print catalog, order from the full-screen Web site, or use a site tailored for smart phones. In every case, the same database captures information about the sale. All the channels draw from the same inventory and receive the same updates when

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Outdoor equipment retailer Moosejaw integrated its fulfillment system to simplify delivering to customers through multiple sales channels.

a customer makes a purchase, or when the company's warehouse in Madison Heights receives new merchandise.

Moosejaw uses a custom-built, Web-based system called Retail Backbone to manage back-end functions, including replenishment, warehouse management, fulfillment, receiving, pricing, purchasing, and inventory control.

SAME DIFFERENCE

In its organization and staffing, the warehouse makes no distinction between product destined for brick-and-mortar stores and product that Moosejaw will ship to customers.

"Like most warehouses, we put fast-moving products closer to the packing stations, but we have pickers who fulfill Web orders, individual store transfers, and bulk store transfers," Wolfe says.

The software determines when stores need more merchandise and places the orders, which the buying team reviews and confirms. "A transfer order is no different than a Web or store order, except that instead of a customer, our buying team places it," he adds.

A single Moosejaw truck delivers merchandise from the warehouse to the company's six stores in Michigan. A seventh store in Chicago receives its shipments via UPS.

About 80 percent of Moosejaw's direct-to-customer orders come from the warehouse, carried by UPS. Retail stores or suppliers ship the other 20 percent. Software keeps tabs on traffic at the stores, changing priorities for steering customer orders throughout the day.

"If the traffic counter in Grosse Point tells us that the shop is packed with customers, we'll only send Grosse Point an order if we can't fulfill it from any other store or the warehouse," Wolfe explains.

Shipping from retail shops and suppliers allows Moosejaw to show about 20 percent more product on its Web site than it could otherwise. Shipping from suppliers also helps keep a lid on inventory risk.

Managing inventory in a multi-channel enterprise was more complex back when Moosejaw used separate systems to support point-of-sale, Web sales, the call center, and various back-end functions.

FIRST COME, FIRST SERVED

"During the holidays, products moved so quickly that a customer might buy a tent online at the same time someone bought it at a retail store," Wolfe says. "The online order would eventually make its way to the store, by which time the tent was gone and we'd broken our promise to the customer."

Under the new, integrated regime, whoever buys the tent first gets it. Before an order is completed, the software checks it against real-time inventory, ensuring that Moosejaw sells only items it can actually deliver.

Moosejaw has built its reputation on "Moosejaw Madness," a spirit of fun that turns shopping into a social networking phenomenon. But, Wolfe says, "it's the behind-the-scenes single platform that makes everything possible."

EVERYBODY'S GONE SURFING

While Moosejaw may have perfected the art of surfing from channel to channel, many retailers are only just starting to learn that multi-channel selling in an e-commerce world takes far more than a button on the Web site marked "in-store pickup."

"Until now, most retailers have been thinking about multi-channel selling from just the customer front-end perspective. We're finally getting to the heart of the matter," Baird observes.

As retailers reach that heart and implement new supply chain strategies, more customers will get exactly the product they want, purchased and delivered via the method of their choice. ■

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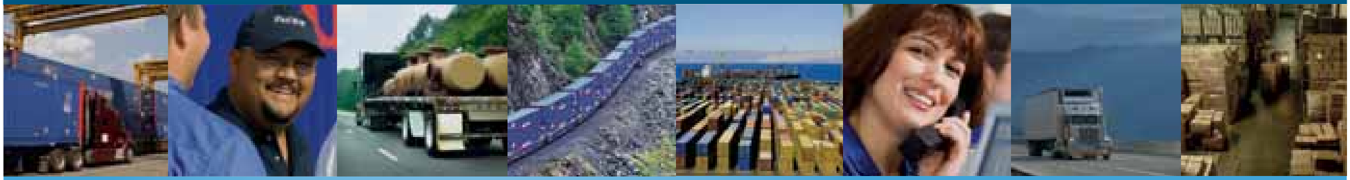

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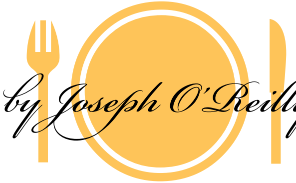

by Joseph O'Reilly

With a nod to the Food Network, and a toast to the Chef, join us as we cut from the table and go straight to the source.

Food connoisseurs and chefs alike can appreciate the time and effort necessary to prepare savory meals at a favorite restaurant or in the confines of the kitchen. Plating food that is appealing to the palate requires a master culinary touch. Getting fresh ingredients off the pallet and to the plate demands equal mastery over manipulating logistics in the food supply chain.

Supply variability, timeliness, temperature sensitivity, expedited transportation costs, and Mother Nature challenge food producers and distributors to source the freshest fish, tastiest taters, firmest fruit, and greenest greens as economically, expeditiously, and efficiently as possible.

From Alaska's salmon-teeming Copper River Delta and the lush bean fields of Guatemala's central highlands, to the alluvial-rich potato farms of the Pacific Northwest and California's coastal strawberry fields, food shippers take great care processing, transporting, and distributing seasonal supplies to ready demand. Any way you slice it, these remarkable journeys expose the great lengths supply chains stretch to bring food to market.

CATCHING COPPER RIVER FEVER

The beginning of Alaska's annual Copper River salmon run in mid-May is a marvel of nature's boundless energy and the seafood industry's unfailing resolve. Every year the race begins anew as fish processors and restaurants compete to land the first big catch of Alaskan king salmon.

Ocean Beauty Seafoods is among a number of local companies that welcome the arrival of the king salmon's yearly migration from the open waters of the Pacific Ocean to its spawning grounds upriver in the glacially fed Copper River Valley. The Seattle-based company operates a processing facility in nearby Cordova that serves as the initial handling and distribution point for the king salmon that fishermen skim from the delta's shallows.

"The process begins at 7 a.m.," says Jan Koslosky, director of supply chain management for Ocean Beauty Seafoods. "We tender a vessel on grounds to receive fish, then organize an Alaska Air Cargo charter flight with other processors to get product to customers as fast as possible."

Alaska's wild salmon industry is highly regulated and certifiably sustainable so wildlife authorities and seafood companies go to great lengths to balance how much fish they take and when they take it.

"If a specific harvest period begins on Wednesday they'll generally fish from 7 a.m. to 7 p.m. The next harvest period might be one week later to allow the salmon to re-propagate. The fishing is tightly monitored," adds Koslosky.

With the initial push, pent-up demand inflates prices and allows Ocean Beauty to use expensive air freight to push product to market.

"We run fish down the line and remove heads and guts (H&G)," he says. "They are chilled and boxed with gel packs and an insulated liner system to add value. We ship these boxes through our fresh fish distribution network to white tablecloth businesses and fish bars at grocers such as Kroger and Safeway."

Ocean Beauty also ships fish to various markets across the United States in H&G form, where they are then filleted on site.

"Once that initial spike is satisfied, we work with supply and demand," explains Koslosky. "When prices diminish and we can't afford to airlift fish, we begin the transition to secondary processing in single frozen form at the Cordova plant."

Cordova is a unique location and logistics challenge because it is inaccessible by road. When early-season demand and prices allow, Ocean Beauty partners with Alaska Air Cargo to transport salmon to market. But the Seattle-based cargo carrier has a finite amount of lift between dedicated cargo freighters and combi aircraft–and air freight is expensive. For less-timely shipments, Ocean Beauty works with Alaska's Marine Highway System to run container-loads of salmon to Anchorage.

Running Fish To Market

The processor uses high-speed ferries to transport fish from Cordova to Whittier, a reshipment port on the Marine Highway System. "We transport fish in pre-chilled 40-foot containers, sharing the space with other processors," explains Koslosky.

In Whittier, the containers are trucked through the Anton Anderson Memorial Tunnel to Anchorage. An orchestrated departure time from Cordova to Whittier is critical. The one-lane, shared highway and railroad tunnel rotates inbound and outbound traffic every two hours so any undue delays add dwell time in Whittier.

"Containers leaving Cordova at 7 a.m. arrive in Whittier at 11 a.m., then trucks pull containers through the tunnel to Anchorage where they arrive by 2 p.m.," explains Koslosky. "In Anchorage

Alaska's wild salmon harvest is certifiably sustainable, requiring seafood companies to work within predetermined time constraints to net their catch.

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a freight forwarder breaks the containers down and air freights shipments across the United States. We manage the process through to customer pick-up."

Outward Bound

Beyond the obvious hurdles of managing transportation, Ocean Beauty has taken a leadership position complying with the Transportation Security Administration's (TSA) new directive for pre-screening cargo on passenger aircraft.

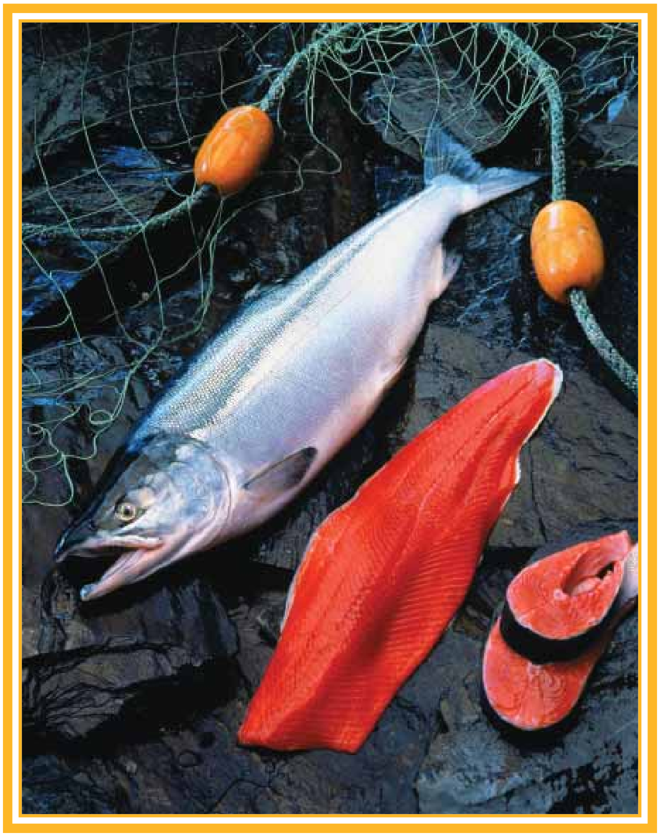
Congress has mandated 50-percent screening of all cargo ferried on passenger aircraft by February 2009, with 100-percent compliance expected in the summer of 2010.

"As a food processor and seafood company, we wrote our own security protocol to satisfy TSA requirements, and the Cordova facility is in full compliance," says Koslosky.

In accordance with the mandate, outside packaging will identify the seafood as coming from an approved facility, thus mediating any delays at the airport. Ocean Beauty is looking to enroll its other Alaskan facilities in the certification program as well.

The Alaskan seafood industry serves as a unique example of the many challenges shippers face matching seasonal supply to year-round demand. Operating in a highly regulated industry that is otherwise arbitrated by the whim and fancy of spawning salmon and fawning salmon gourmets is no small task.

"It requires a strategic planning process," says Koslosky, "but the weather and the fish have to cooperate as well."



HAUL OF THE WILD: Meeting year-round demand for Alaskan salmon requires strategic planning and cooperative fish.

DIGGING UP AN OLD STAPLE

Any way you couch it, just-in-time (JIT) logistics and potato farming are two unlikely peas in a pod. But for Fresh Solution Farms (FSF), a cooperative of six potato and onion growers, pulling inventory to demand is a valuable means for efficiently and economically managing its supply chain.

Established in 2007, the White Pigeon, Mich.-based partnership grows, distributes, and markets table stock potatoes for the retail grocery and food service industries. Individually, the companies operate their own production acreages and processing facilities across North America. En force, they are positioned to efficiently provide a full line of local, regional, and nationally sourced products year round through their collective network.

The consortium also owns and operates a washing, storage, and packing facility in White Pigeon that has been up and running since March 2008. The plant comprises 144,000 square feet of space, along with a two-lane rail siding.

"We are a grower, packer, and shipper," says Greg Salisbury, Fresh Solution Farms' general manager. "We receive produce in primarily raw bulk form, then store, wash, grade, size, and pack it to order in all container sizes."

Quite naturally, delivering the best potatoes to market begins with high-quality, well-drained, and sufficiently irrigated land and the selection of high-quality seed stock from certified seed growers.

Potato production varies in different parts of North America, with August to November the traditional harvest period in northern climes, and April to June typical for southern areas. Throughout the season, growers sample and test crops to provide feedback to field managers regarding quality and size profiles.

"When the desired size profile is reached, the vines are externally killed," says Salisbury. "The potatoes are allowed to move into a dormant state in the soil before harvest, ensuring a strong bond between the flesh of the tubers and the skin."

This delay between vine kill and harvest is important as it creates a durable skin resulting in better quality appearance and shelf life than a potato that is immediately harvested green.

Once potatoes get to the plant, they either move into long-term storage where temperature and humidity controls prolong life, or they are run directly into the plant process for immediate packaging and sale.

Cruising for Less Bruising

In-plant processing begins with a bruise-reduction system designed to minimize potato drops of less than six inches. Inventory is then triple-washed: a pre-wash soak, followed by a high pressure brush wash, then an ozone infused sanitizing rinse to remove soil and eliminate bacteria. Finally, tubers move through a triple grading process where they are sized, sorted, and inspected for quality.

"After the triple-wash, triple-grade processes, the cooled, dried potatoes are packed to order," says Salisbury.

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SPUD CENTRAL: After potatoes are harvested from the field and hauled to a processing plant, they undergo three-stage wash and grading processes to eliminate bacteria and sort for quality and size. Tubers are then packed to order or placed in temperature-controlled storage.

The care that goes into processing and packaging potatoes inside the plant matches the diligence with which FSF manages its supply chain. For all growers, the evergreen challenge is figuring out how to match nature's caprice with consumer demand.

"While vegetables are infinitely variable biological organisms that are planted, grown, and harvested on a calendar driven by nature, customers demand consistent quality, size, and responsiveness year-round," says Salisbury.

Success in the potato industry requires one part produce and one part logistics. "Product is seasonal by nature, but demand is steady and patterned year over year," he adds. "Technology helps us properly store product. Logistics fills in the gaps in terms of matching demand to available inventory."

The value that FSF brings to market is its capacity to smooth out variation so retailers and their customers can count on a year-round inventory of product in the quantities they need. Using its long-term bulk storage capabilities, FSF extends traditional harvests so that the network can move produce from areas where there is a surplus to demand.

"We serve some local market demand through the year during harvest time," Salsibury says. "Because there is no need for storage, potatoes move directly from the field to the bag."

Pulling Potatoes to Demand

Outside harvest time, FSF's lean, demand-driven trappings enable it to efficiently move inventory across the country while squeezing out associated costs in the process.

"A pull logistics system is valuable because we don't have the same predictability that other JIT industries have," he says. "It's a competitive commodity market and we bid on business week to week."

FSF meets immediate demand and packs to order rather than to inventory. This minimizes finished goods on hand, and allows it to hold bulk stock in the least value-added form.

"Stock isn't built up as product runs through the system," explains Salisbury. "We don't have inventory sitting on the dock that has value built into it. While demand may be relatively consistent, packaging is much more flux. Variation can include a one-pound bag or a 50-pound box. This postponement allows us to avoid reprocessing and repackaging inventory."

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FSF's lean inventory model also greatly benefits its customers in terms of flexibility and security. It allows them to take inventory out of their DCs and re-order in smaller lots because FSF can replenish on demand. This control and accountability, from harvest to sale, is equally important in terms of ensuring food quality and safety.

"We manage the value stream from supply to the customer," says Salisbury. "The land, the storage, the transportation, is all under our control. This way we can sustain a competitive price point and maintain optimum customer service and quality."

Guatemalan-grown French green beans are packed in the field and arrive to market in uniform bunches that chefs drool over.

While JIT strategies are unique to the produce industry, FSF is committed to leaning on its pull approach to drive even greater value for the industry as a whole, and its customers in particular.

"Lean principles apply well in this industry," Salisbury says. "Based on a goal of minimizing waste, we have designed a plant that allows us to pack to order on a pull basis rather than build inventory then push it on the market with discounted pricing."

FULL OF BEANS

When New York City's world-renowned chefs are looking for an exotic fruit or choice green to spice up their menus and pique appetites, cost is usually secondary to selectivity and taste.

Agri Exotic Trading, a Clifton, N.J., exotic fruits and vegetables wholesale distributor, knows this well. It is a produce purveyor of choice. The company sells a variety of hard-to-find and difficult-to-get products sourced domestically and abroad to hotels, restaurants, gourmet grocers, and caterers. Among its many special offerings are French green beans–haricot verts in green bean speak–flown in from Guatemala.

Unlike Californian and Mexican-grown beans, which are smaller in size, less uniform, and stringier, the Guatemalan variety is sought after for its tenderness, consistency, intense flavor, and velvety smooth skin–a major draw for aesthete-minded chefs.

Bean production in Guatemala is relatively consistent year round with a slight drop in February and March when farmers turn over their fields, says Paul Ryan, produce buyer for Agri Exotic.

When replenishing inventory, the wholesale distributor calls its importers, buys the beans–800 cases of five-pound box quantities, as an example–and flies product into Kennedy and Newark Liberty airports, where its fleet of 20 refrigerated trucks picks up the freight and return to its multi-temperature, 16,000-square-foot facility. Agri Exotic then delivers orders to regional customers.

"At the airport, green beans are checked and inspected by the U.S. Department of Agriculture and fumigated with water and gas washes to prevent insect infestation," says Ryan.

Because of the green bean's sensitive nature, managing the cold chain throughout the harvesting, transportation, and distribution process is critical.

"Given the green bean's tenderness, its shelf-life is pretty tight–one to six days–otherwise it will dry out. So it's important to keep the cold chain moving," Ryan says. "Produce is warehoused and transported in 40- to 45-degree environments with high humidity."

French green beans have high water content so without proper chilling, moisture begins to evaporate and they shrivel. In the field, once beans are picked, they are brought down on skids and cooled in a room where the heat is sucked out, then they ship.

Most distributors turn French green beans in two days and re-supply just-in-time rather than hold inventory. If they don't sell in that time period, suppliers have to lower their prices to move product before it spoils. "It is a commodity market," Ryan adds.

Great care is also taken in grading and boxing crops for both efficiency and presentation. In Guatemala, French green beans are packaged by hand in five-pound containers. "When 100 people are hand-packing, the results are more uniform sizes, better grades, and more compact boxes," says Ryan. "You can reach in and pick up a perfect bunch of beans, which is important to chefs."

Finding that perfect bunch of uniform Guatemalan-grown French green beans to complement a well-choreographed meal challenges distributors such as Agri Exotic to sustain the cold chain, expedite transportation, and preserve the quality of the packaging to ensure orders are well-received by its clientele.

"The hardest part is timing–getting product to markets where there is demand,'" says Ryan.

PICKING AGAINST TIME

Nothing compares to a bowl of cereal or a piece of cake topped off with a handful of fresh strawberry halves. Rich in Vitamin C, low in calories, and full of color, strawberries require equal portions of collaboration and logistics planning to get to the table.

W. Newell & Company, a Chicago-based fresh produce distributor and subsidiary of SUPERVALU, sources and transports a variety of high-volume domestic and foreign grown foods–including Californian-grown strawberries–to retailers across the country.

In California, where more than 80 percent of the United States' annual strawberry yield comes from, harvesting begins in December and extends through July for some parts of the state. When its growing season wanes, W. Newell follows the crop's seasonality to southern climes such as Florida. "We repeat the cycle every year," says Gary Gionnette, COO of W. Newell & Company.

Similar to many of the distributor's fresh produce items, strawberries demand extra diligence moving to market simply because of the freshness of the product and the fact that they aren't stored, adds Gionnette.

Generally, the distributor purchases product from strawberry companies that consolidate locally grown crops. Farmers pick and package their crops in the field, then transport to consolidation and cooling centers.

"These facilities house enormous rooms to cool product and pull field heat out," he says. "They don't have the space to hold multiple days of inventory as others might do with crops such as apples, potatoes, or onions."

From these facilities, W. Newell works with third-party carriers to haul full truckloads, sometimes mixed with produce such as melons, tree fruit, and berries, to its Champagne, Ill., distribution facility. The refrigerated trucks keep temperatures in compliance with U.S. Department of Agriculture standards, often between 34 and 36 degrees.

Rail: Cost vs. Time

While W. Newell predominantly uses trucking to manage the expediency of its transportation needs, it will occasionally use rail–trailer on flat car–to move product to a consolidator in Chicago where it is then transloaded to its DC.

"Rail is a cost-efficient transport mode, and we measure that relative to quantities we want to take in. It generally takes one additional day compared to truck because of the consolidation step," says Gionnette.

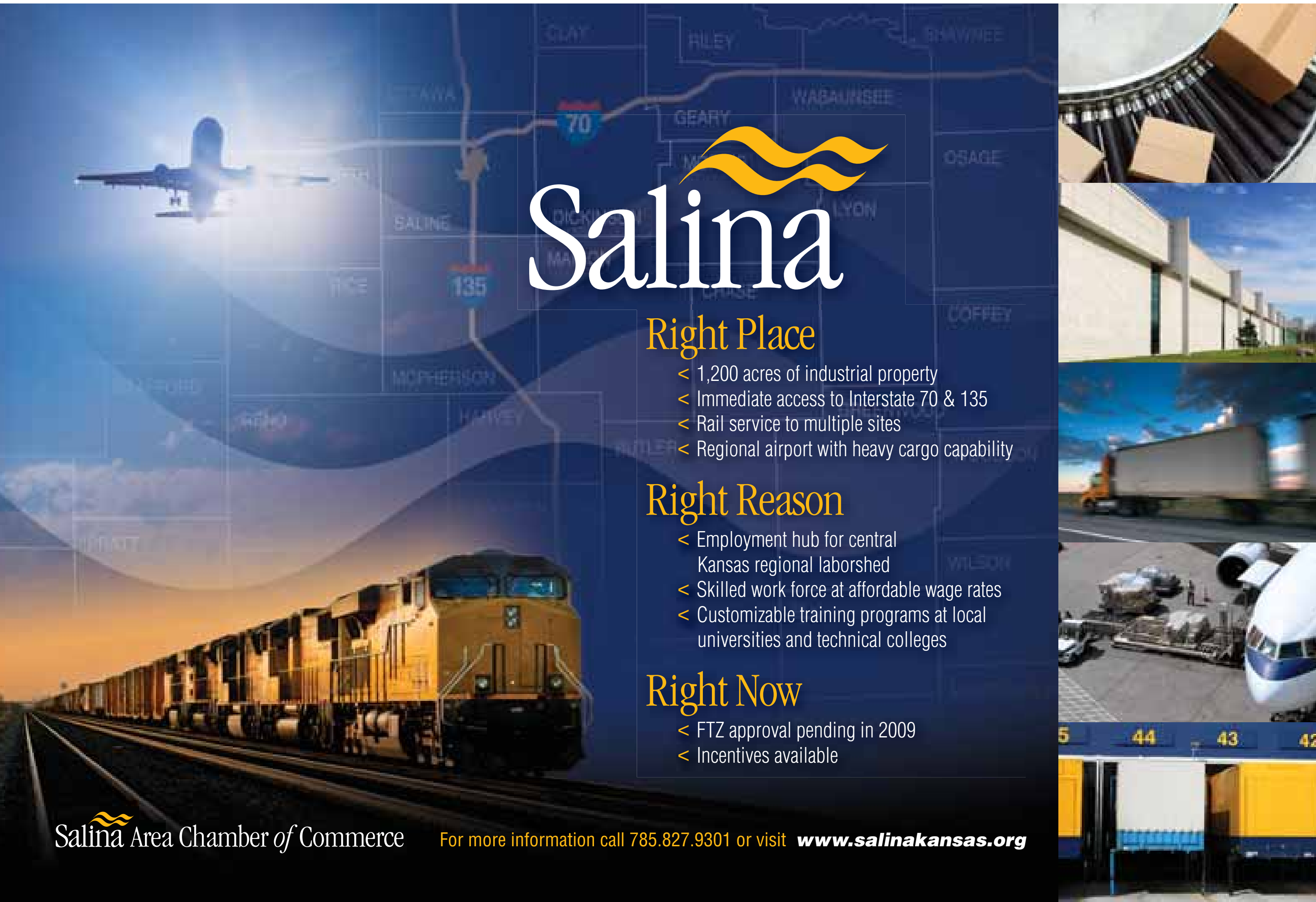
From its Champagne facility, W. Newell works with its third-party partner, Holland, Mich.-based Total Logistic Control (TLC), to transport outbound shipments to retailers. As its dedicated carrier, TLC makes about 1,500 deliveries a week, averaging 440 miles and five stops per trip. Depending on order drop times and demand, the 3PL moves replenishment inventory to stores four times a week, and sometimes daily.

Like any perishable shipment, W. Newell has to turn products in very tight windows–and these windows are subject to weekly variability.

"We have to be very sensitive to changes during the week. Impulse shopping is tough to forecast," explains Gionnette. "If a customer is ordering 24 hours later for replenishment, we have to factor this in and forecast out three or four days to meet demand."

The reward is well worth the effort. For W. Newell, its retail customers, and consumers, the proof of its distribution efficiency is in the strawberry pudding.

"Product harvested on Monday morning in California will reach Champagne in three to four days," notes Gionnette. "We then turn inventory in 24 hours so that fresh strawberries arrive in stores on Friday."



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On the Move: A Day in the Life of a Transportation Manager

Spend some time with the professionals who get business in gear.

By John Edwards

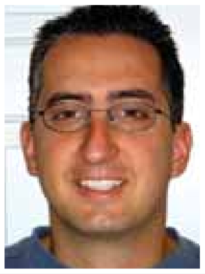
Responsible for planning, executing, and optimizing transportation strategies and operations, transportation managers often find themselves on the firing line from the moment they begin work until the time they head home–and beyond.

To better understand the challenges transportation managers face and the vital role they play in daily business logistics activities, we asked three professionals–each in a different industry–to tell us about their work, including their tasks, responsibilities, and challenges. Here are their stories.

Ken White

KEN WHITE, Inbound Logistics Manager, Staples

Filed Under “D” for Details



RESPONSIBILITIES:
Manage domestic vendor collect inbound moves, as well as shipments between Staples' distribution and fulfillment centers

CHALLENGE:
Process 1,200 purchase orders each day

TOOL OF THE TRADE:
Transportation planning software

IMPROVEMENT STRATEGIES:
Encourage marketing to plan shipment-friendly store fixtures and promotional items; spread inbound shipments over a week or two, rather than over just a few days, to ease strain on warehouse crew and capacity; optimize cube space when shipping replenishments

Staples' brand promise is to “make buying office products easy.” Ken White, inbound logistics manager for the Framingham, Mass.-based office products retailer, does everything he can to stay true to that philosophy.

White aims to make his part of Staples' transportation operations as efficient and problem-free as possible. White's department is responsible for all of Staples' domestic vendor collect inbound moves. “We use two different sets of vendors: collect and prepaid, with each type in equal numbers,” he explains. “My department is responsible for the collect fees.”

White also manages all shipments moving between Staples' distribution and fulfillment centers. “My department handles all the freight into, and transfers between, those buildings and some direct-to-customer shipments as well,” he says.

Those shipments total about 50,000 truckloads a year that fall under White's responsibility. “In this department alone, we process about 1,200 purchase orders a day,” he says.

White and his team rely on a variety of technology support systems, mostly homegrown creations. Most important is the Staples Partners Web site, which allows vendors to input order information.

“Through the Web site, vendors tell us their shipment sizes and we let them know how we will ship their product,” White says.

Although Staples maintains its own private fleet, White uses approximately 10 truckload and five LTL carriers, as well as a package delivery service. “The Staples fleet delivers to customers, so that's the responsibility of the outbound logistics team,” he notes.

Information on nearly all the inbound freight White handles is entered in JDA Software's transportation planning tool. The software helps White squeeze maximum efficiency out of his operation. “We try to align vendors within regions so they can ship on the same day,” he says. “That allows for multi-stops and multi-pickups with other vendors.”

In addition to shipping various kinds of retail merchandise, moving store fixtures is another of White's major responsibilities. He works diligently to ensure that the items, ranging from shelving to lights, are handled as efficiently and cost effectively as possible.

In response to fluctuating fuel prices and a tougher retail market, White has worked more aggressively during the past few years to cut costs. Store fixtures and promotional items are an easy target for improvements.

“I'm working with the marketing team to ensure they consider transportation when they're planning items,” he says. “We've also talked about not having all shipments coming into the DCs the same three days, but instead spreading them over a week or two, depending on the volume.”

White is also focusing on replenishments. “I'm working with the people who issue the replenishment orders every week so that they fully utilize the trailers, making certain they maximize cube and order in pallet layers so that the product is stackable,” he says.

With so many responsibilities to meet, it's key that White stay focused. “When you manage transportation, you have to pay attention to the details,” he says. “That's where the savings hide.”

> “When you manage transportation, you have to pay attention to the details—that's where the savings hide.”

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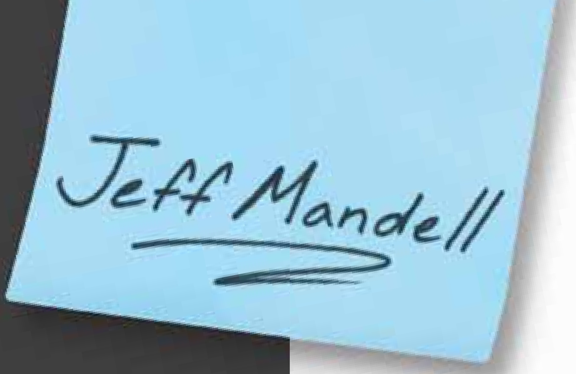


JEFF MANDELL, Inbound Transportation Manager,
H.J. Heinz Company

Ketching Up With Service Requirements

RESPONSIBILITIES: Ensure that the company's transportation partners maintain required service levels for inbound raw material shipments; balance cost and service requirements

CHALLENGE: Adapt to low raw material inventories caused by the agriculture industry's challenge

TOOL OF THE TRADE: Transportation management system

IMPROVEMENT STRATEGIES: Give incumbent carriers opportunities to contract for revamped services; adapt to changing production schedules and sourcing locations to support product demand; coordinate transportation activities with other corporate departments

There's a lot more to Heinz than ketchup. While the $10 billion, Pittsburgh-based global food giant sells 650 million bottles of its iconic ketchup each year, 15 different brands account for more than two-thirds of the company's annual sales.

Jeff Mandell, Heinz's inbound transportation manager, works daily to ensure that the company's various transportation partners maintain required service levels for all inbound raw material shipments.

"The absolute minimum requirement is delivering what's wanted, where and when it's wanted, and ensuring that the product maintains the quality and integrity it had when it left the supplier's dock," Mandell says.

Since joining Heinz a little more than two years ago, Mandell's prime function has been to serve as a change agent. "I've been charged with overhauling the Heinz America inbound raw materials network," he says.

When Mandell assumed his post, the job was heavily weighted toward supplier routing. "No centralized group was monitoring service levels or capturing cost information detail for the corresponding loads," he says. "The cost was hitting the procurement department and affecting purchase price variance, but nobody pulled back the reins on it."

As soon as he arrived on the job, Mandell's team began collaborating across the different parts of the organization to turn things around. "We worked with the procurement group to identify the supplier base, where they were sourcing material, and how it was being shipped to our locations," he says.

Mandell's initial focus was examining the choice of transportation modes. Every transportation element has a cost element behind it, but for Mandell, carrier service was the most important factor. "I was looking at whether facilities were receiving the required inventory to support production," he says.

It has been a battle to optimally balance cost and service. "In some cases, we found that balance," he says. "The modes being used by incumbent carriers and suppliers made sense."

MAKING PARTNERSHIP A PRIORITY

As he reshaped carrier practices and relationships, Mandell offered existing partners opportunities to fit into the revamped transportation network. "We gave the incumbent carriers every chance to maintain a portion, or in some cases, all of the business, and contract directly with Heinz corporate," Mandell says.

Mandell was careful to understand the burdens shouldered by all the network's stakeholders. "We had to consider the production facilities' raw material inventory limitations, ordering practices, and frozen ordering schedules, as well as the suppliers' ability to meet our requirements," he says.

Mandell also made a commitment to acknowledge and adapt to inevitable obstacles and challenges. "We put standard practices in place, but we also had to make sure we were flexible and could respond quickly to any kind of production change," he says. Inventory discrepancies at key locations and occasional quality issues with suppliers were problems that could be anticipated and handled.

"Flexibility and the ability to adapt to changing production schedules, sourcing locations, and co-pack locations to support product demand is important," he says.

> “We put standard practices in place, but we also have to be flexible so we can respond quickly to any kind of production change.”

A transportation management system (TMS) enables Mandell and his team to continuously evaluate shipments. “If a facility orders small quantities–a few pallets, every other month, for example–we don’t use a truckload provider on those shipments,” he says. “We’ll go with an LTL carrier.”

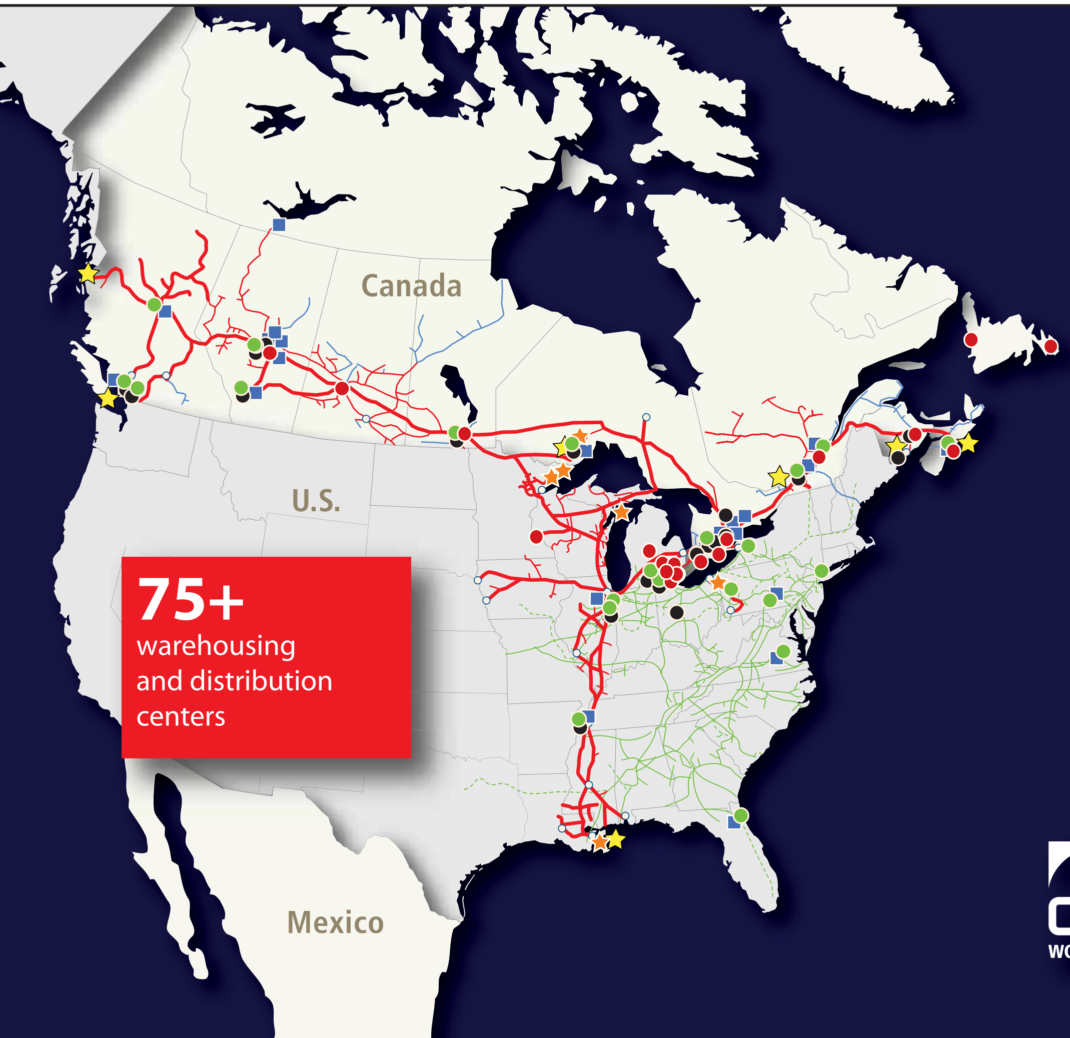
Mandell currently supervises four core LTL carriers–two national and two regional. “Our truckload carrier network consists of about 100 providers, the majority of which are asset-based,” Mandell says.

The TMS helps Mandell consolidate LTL shipments. “We can optimize loads when it makes sense from a required delivery date and capacity standpoint,” he says.

Mandell’s transportation resources are currently being stressed because Heinz is operating at the lowest raw material inventory levels in company history, a result of ongoing agriculture industry turmoil. He feels that his organization’s service commitment is helping the company cope with the difficult situation as best it can. “We strive to achieve an optimal balance of service and cost,” he says.

Like most transportation managers, Mandell’s work is evolving because of a growing need to coordinate transportation activities with other corporate departments. “Our work with the procurement department has been invaluable,” he says. “Moving forward with electronic freight payment, we will work closely with finance as well.”

Mandell also stresses the importance of communicating and cooperating with business partners. “The supplier communications and relationships that we’ve developed have played a significant role in helping achieve our goals,” he says. “Their willingness to work with us as partners, and not just a customer to be served, has helped us in transitioning and overhauling the Heinz transportation network.”



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TOOLS OF THE TRADE:
Online routing guide and load posting software

IMPROVEMENT STRATEGIES:
Evaluate freight pay data for clues to more efficiently manage material movement and cut costs; work with internal supply chain partners to identify savings opportunities and gain feedback on carrier performance; create a transparent, closed-loop process that tracks orders from placement to shipment to payment

With nearly 38,000 megawatts of generating capacity, American Electric Power (AEP) ranks as one of the nation's largest electricity generators. The Columbus, Ohio-based utility also owns the country's largest electricity transmission system, a nearly 39,000-mile network that includes more 765 kilovolt extra-high voltage transmission lines than all other U.S. transmission systems combined.

For Ted Lunsford, AEP's strategic initiatives lead in transportation and logistics, daily work involves managing and negotiating carrier contracts for inbound and outbound freight, including internal shipments moving between company locations.

While AEP doesn't ship its core product–electricity–it does move all the material and equipment involved in generating, transmitting, and distributing electricity.

"We ship material such as light poles, photocells that sit on top of the light poles, and the meters installed outside of the home," Lunsford says. "We also shift equipment such as transformers, regulators, capacitors, wire and cable, and other materials. We move a range of commodities, shipment sizes, and weights every day."

AEP not only moves a volume of shipments, it also sends them over a wide service area. "We have contracts in place for most transport modes: parcel, LTL, truckload, flatbed, and expedited," he says. "We operate in 11 states in the Midwest and Southwest–from Michigan down to the tip of Texas." In all, AEP serves more than five million customers.

Lunsford and his team play a key role in the ultimate success or failure of AEP's freight management and cost control.

"We operate between 350 and 400 facilities, ranging from large power plants to small storerooms where we hold inventory," Lunsford says. Part of the company's internal logistics model is based on a hub-and-spoke system.

"We feed material from large distribution centers to small storerooms so it reaches facilities that are close to our customers," he says. "We're positioned so we can grab material quickly, enabling us to handle outages or service interruptions." When sharing inventory between facilities, the company uses contract carriers or its small internal fleet.

EXPECTING THE UNEXPECTED

Activity hits a peak whenever an emergency strikes or the unexpected happens. "We recently endured a round of hurricanes that hit our territory in Texas, Louisiana, Oklahoma, and Arkansas," Lunsford says. "In Ohio, Hurricane Ike knocked out power to more than 600,000 AEP customers. In these cases, expedited delivery is essential to get the right material to the right place at the right time."

Negotiating and managing carrier contracts is one of Lunsford's many responsibilities.

"I look for top-tier carriers that can provide great service, with minimal loss and damage, at competitive rates," he says.

With the exception of expedited-intensive emergency situations, time doesn't play a big role in Lunsford's responsibilities. "Our partner carriers do a great job of picking up and delivering material within one to three days–origin to destination–from almost anywhere around the country," he says.

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“The big savings and efficiencies come from carrier compliance and identifying consolidation and mode-shift opportunities.”

Cost savings, on the other hand, are vital to Lunsford and AEP. “The big savings and efficiencies come from carrier compliance and identifying consolidation and mode-shift opportunities–from parcel to LTL, or LTL to truckload, for example,” Lunsford says. “As primarily an inbound shipper, we don’t fit the typical manufacturing or distributor model of operating within a hub-and-spoke system, moving product along the same lanes every week.”

ON THE LOOKOUT FOR OPPORTUNITIES

The back-end of AEP’s shipment infrastructure–freight pay data–helps the company spot hidden opportunities. “Freight pay data is the most important piece of our transportation management,” Lunsford says. “That data holds a wealth of information to help efficiently manage material movement and control costs.”

Simple logic embedded into AEP’s online routing guide and load posting software, hosted by Memphis-based technology vendor CTSI Global, helps optimize transportation, making shipments as simple and seamless as possible.

“Our purchase orders include shipping instructions that guide the vendor to our Web site if AEP is managing the freight,” Lunsford says. “The vendor enters basic information, such as ZIP codes and weight, online. Within one minute, the vendor has the information to contact the appropriate carrier by phone or electronically tender a load for pickup.” On the back end, Lunsford uses CTSI’s freight pay data and TMS tools to analyze shipping patterns, lanes, carrier compliance, and cost-savings opportunities.

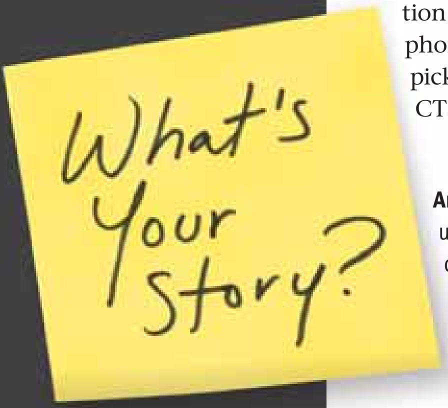
Lunsford works continuously to improve AEP’s transportation network. “Each year for the past five years we’ve made significant changes in how we handle increasing freight volumes and how we deploy our hosted shipping solutions,” he says. In that time, his operation has evolved from a highly manual, operational intensive process to a more tactical and strategic group.

“Our goal is to have a transparent, closed-loop process from the time we place an order to the time the material and freight costs are paid,” he says. “That includes proper routing, load consolidation, event management for material in transit, centralized claims processing for loss and damage, freight pay audit, and back-end reporting.”

Ultimately, however, close working relationships with internal supply chain partners are also required to create efficiencies and cut costs. “We work with procurement and our suppliers to analyze opportunities for transportation efficiencies and savings,” Lunsford says. “We also rely on our supply chain partners for feedback on carrier service levels and key performance data.” Internal supply chain partners can also help pinpoint holes in transportation services that AEP may need to plug.

Despite the hectic nature of his work, Lunsford believes that patience is key when it comes to creating a world-class transportation infrastructure. “You have to take it one piece at a time,” he says.

Ken White, Jeff Mandell, and other transportation managers would surely agree.



Are you a transportation manager with a supply chain strategy to share? Have you encountered unusual shipments that challenged your expertise? We’d love for you to let us know. E-mail a brief description (250 words max) of your experience to editor@inboundlogistics.com. (We reserve the right to edit for length and clarity.)

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2009 Business Guide to Tax Evasion*

Companies can avoid import duties and other fees by shipping through and manufacturing in a Foreign Trade Zone.

By Dan Calabrese

***(relax...it's perfectly legal!)**

Goods that offer value to American manufacturers can be found the world over. But importing and distributing them, or using them to manufacture products, incurs a myriad of trade-related costs–from taxes to administrative fees imposed by U.S. Customs & Border Protection (CBP).

How can global companies realize the benefits of importing goods without carrying the financial burden associated with foreign trade? By bringing goods into the country without bringing them into the country.

If that sounds like exploiting a legal technicality, that's the idea. The technicality is known as a foreign trade zone (FTZ), and using it to avoid paying duties and fees is exactly what was intended when FTZs were created in the 1930s.

When imported goods make their first stop in a designated foreign trade zone, they have not yet entered the country as far as U.S. import law is concerned–even if they traveled by truck from a port in California to an industrial park in Columbus, Ohio.

Goods brought into the country via an FTZ can be used in manufacturing, and can be assembled, tested, repackaged, warehoused, processed, relabeled, and manipulated in a variety of ways. They can even change form completely. As long as they stay inside the FTZ, they are not subject to any import duties.

BIG MONEY

The National Association of Foreign Trade Zones reports receipts into FTZs totaled $495 billion in 2006–the last year in which complete records are available, according to Will Berry, the group's executive director. That represented an increase of approximately $100 billion compared to 2005.

"That's big money," Berry says. "Some of the growth can be attributed to oil prices, but there is also growth in non-oil products. Many states don't have oil refineries, yet FTZ trade volumes still show growth."

Jobs associated with FTZs also grew from approximately 25,000 to 30,000 between 2005 and 2006, Berry notes.

While the recent economic downturn may stunt global trade activity, it may also serve as an opportunity for FTZs, which offer a variety of cost-saving strategies and value-added services.

1a Penrod-Ricard

WE'LL DRINK TO THAT. Liquor wholesaler Penrod-Ricard avoids duty payments by moving its value-added packaging through FTZs in Baltimore and Oakland.

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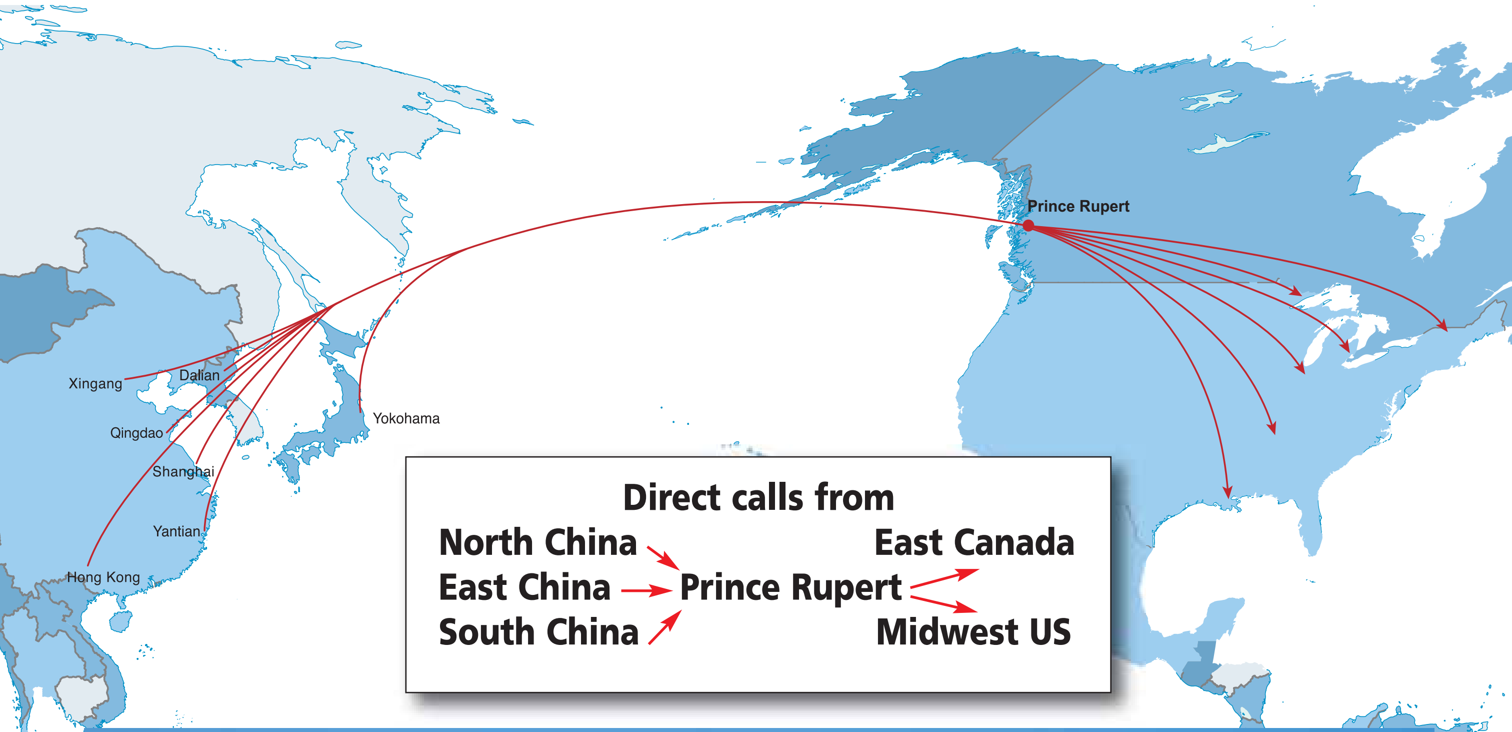

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"Foreign trade zones offer logistics efficiencies not found in other import processes," Berry says. "Goods move through FTZs quickly, thanks to special procedures."

FTZs are chartered by governmental entities or regional authorities, and they typically hire private sector operators–often third-party logistics providers (3PLs) or other organizations experienced in importing, shipping, and warehousing.

Penrod-Ricard USA, a Purchase, N.Y.-based wholesaler of wine and spirits, manufactures goods in the United States and imports many products from abroad. The company uses two FTZs: one in Baltimore, Md., primarily for import activity and one in Oakland, Calif., primarily for export activity.

"We import our value-added packaging, which could include elaborate glasses or cartons, through the FTZs," notes David Throckmorton, Penrod-

WTFTZ?

FAQs About FTZs

▶ What is an FTZ?

An FTZ is an area within the United States, in or near a U.S. Customs port of entry, where foreign and domestic merchandise is considered to be outside the country, or at least, outside of U.S. Customs territory. Certain types of merchandise can be imported into an FTZ without going through formal Customs entry procedures or paying import duties. Customs duties and excise taxes are due only at the time of transfer from the FTZ for U.S. consumption. If the merchandise never enters the U.S. commerce, then no duties or taxes are paid on those items.

▶ What activities are permitted in a Foreign Trade Zone?

Merchandise entering an FTZ may be:

- Assembled
- Tested
- Sampled
- Relabeled
- Manufactured*
- Stored
- Salvaged
- Processed
- Repackaged
- Destroyed
- Mixed
- Manipulated

*The user must receive special approval from the FTZ Board.

▶ What are the benefits of operating within an FTZ?

✓ Deferral, reduction, and possible elimination of duties.

✓ Tighter inventory control that may virtually eliminate year-end inventory loss adjustments.

✓ Potential direct delivery benefit reduces long hold times at crowded ports of entry.

▶ Why do companies use foreign trade zones?

To maintain the cost competitiveness of their U.S.-based operations as compared to foreign-based competitors. For a company, zone status provides an opportunity to reduce certain operating costs associated with a U.S. location that are avoided when operating from a foreign site.

▶ How does the U.S. FTZ program fit within the economic development efforts of the various States?

It is a federal program so the underlying authority to approve the creation of a foreign trade zone resides with the federal government. Every state, however, has enabling legislation providing statutory authority for the establishment of FTZs. The creation and development of individual zone projects typically result from a combination of interests generated by both the private and public sectors. The Foreign-Trade Zones Board Staff advises zone organizers to integrate the zone project into the state or local area's overall economic development strategy rather than segmenting the zone as an individual development effort. In this way, FTZs complement other state and local incentives that are incorporated into the overall efforts of a community to maintain their attractiveness as a business location.

Ricard USA's director of logistics.

FTZ rules allow Penrod-Ricard to import the packaging with the product to avoid paying separate excise taxes.

"We bring the spirits and packaging into the Baltimore FTZ, and when we pull them out of the foreign trade zone, we're responsible for only one excise tax," says Throckmorton. "We avoid paying the duty fees, which can be significant, on the glassware."

This technique is legal provided the packaging is involved in the consumption of the product. That's why a glass qualifies, for example, but a wooden crate does not.

During a typical holiday season, use of an FTZ saves Penrod-Ricard between $100,000 and $250,000 in excise taxes, Throckmorton estimates.

Penrod-Ricard uses the Oakland FTZ for duty-free export activities. By sending goods bound for global destinations through the FTZ, the company avoids

▶ Is zone status more beneficial to foreign-owned companies than it is to American-owned companies?

The benefit of zone use is determined by the location of a company's operations in the United States, not by its ownership. If an American-owned company and a foreign-owned company have identical trade operations, the potential benefits for each of them are identical. The U.S. FTZ program encourages investment and production in the United States that might otherwise take place in another country.

▶ Does the cost reduction feature of zone status translate into an import subsidy or a cause of imports?

The reverse is true; the increasing importance of international trade in the U.S. economy has caused a corresponding increase in the use of zones. Periodically, oversight agencies such as the International Trade Commission and the General Accounting Office examine the impact of the U.S. Foreign Trade Zones program. These periodic reviews have not produced any information leading to the conclusion that zones cause imports. The decision to import precedes the decision to use zones.

▶ How do zones "expedite and encourage" direct foreign investment in the United States?

The United States welcomes foreign investment but does nothing to overtly attract or discourage it. Through the policy of "National Treatment," foreign investors are offered the same conditions, rights, and benefits associated with investing in the United States as an American investor can expect to receive. In keeping with this policy, zones encourage foreign and domestic investment by removing a tariff bias that unintentionally discourages investment in the United States and encourages supplying the U.S. market from off-shore.

▶ Are there any practical or economic limits to the number and uses of zones?

For the foreseeable future, there are no economic limits to the use of zones. As the U.S. economy becomes even more internationalized, and as markets become globally homogenous, the operational flexibility and other benefits for which zones are used will motivate a commensurate increase in zone use. As a practical matter, the limits on the number of zones are a function of the number of U.S. Customs ports of entry and the individual communities adjacent to them.

▶ Is the maintenance of the FTZ program costly to the United States?

The establishment and maintenance of FTZs require a minimal expenditure of federal tax dollars. The cost of processing applications by the Foreign Trade Zones Board is offset by application fees and the cost of processing FTZ merchandise by the U.S. Customs Service is offset by merchandise processing fees. Therefore, foreign-trade zones are a self-sustaining tool of international commerce offering significant benefits to U.S. industry and aiding the U.S. balance of trade.

SOURCE: National Association of Foreign Trade Zones

Sub-Form **FTZ** (2009)

excise taxes that could amount to nearly $30 per case or $1.50 per glass.

The mainstay of an FTZ's appeal is its ability to shield importers from the burden of paying duties. Goods do have to leave the FTZ eventually, and at that point applicable duties are assessed. But FTZ operators argue that even if a company ends up paying the full duty, it still benefits from moving goods through the zone.

"It's strictly a time versus value-of-money comparison," says John Zevalkink, CEO of Columbian Logistics Network, Grand Rapids, Mich., which operates the Kent Ottawa Muskegon (KOM) FTZ in western Michigan.

"If companies can avoid paying the duty before they pull product into a zone–and it might take one week from the time a container is off-loaded at the port and transported to an inland zone–they save money while the product is in transit," he notes. "The amount could be substantial."

In addition, companies can combine duty deferrals with inventory cycles to help reduce costs.

"Suppose a company turns inventory 12 times a year," Zevalkink says. "If it doesn't have to pull products out of the FTZ immediately, it might gain an additional month of duty savings by holding the product in inventory before it has to be used."

THE WHOLE IS CHEAPER THAN THE SUM OF ITS PARTS

But FTZs also make it possible to eliminate the duty entirely. The key is to manufacture the imported parts or pieces into a final product before shipping them out of the FTZ.

"This is common practice among drug manufacturers," Zevalkink notes. "They pay a duty on the raw ingredients. But, once most prescription or over-the-counter drugs take the form of a pill, paying duty fees is not required."

To take advantage of that aspect of trade law, many manufacturers set up specific operations in FTZ sub-zones, and produce their goods on-site. An FTZ sub-zone can be situated anywhere the designation is approved.

The KOM FTZ was originally established with a primary sub-zone occupied by now-defunct Bosch Automation. Bosch was located approximately 12 miles from the KOM FTZ in downtown Grand Rapids, but as long as goods traveled back and forth between the two locations in bonded transport approved for FTZ-related use, they had still not yet entered the country as far as the law was concerned, according to Zevalkink.

Avoiding duties by manufacturing on-site is the most common benefit for FTZ users, notes Linda Hothem, former owner of and current advisor to Oakland, Calif.-based Pacific American Services, which operates an FTZ out of the Port of Oakland.

"Manufacturers pay a lower duty rate on the finished product than on the parts combined," Hothem says. "That comprises the bulk of the savings."

2b

Port of Morehead City

Some companies use foreign trade zones such as this one at North Carolina's Port of Morehead City to hold product in inventory before they need it, thus deferring duty payments.

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Because FTZs allow manufacturers to pay a lower duty rate on finished products than on the parts combined, many companies import parts then build their products on-site at an FTZ sub-zone. Cutting duty rates can result in substantial cost savings.

FTZs also allow manufacturing and assembly to occur in the United States under circumstances in which a duty will never be paid, adds Geoff Manack, co-owner of Hyperlogistics Group, a 3PL that operates an FTZ in Columbus, Ohio.

"Take a company that imports fabric from China, then ships finished garments to Europe or South America through a U.S.-based FTZ," Manack says. "According to FTZ rules the goods never entered the United States, so the importer does not have to pay the duty."

Recent growth in FTZ interest is not just about avoiding duty payments; it's also about reducing administrative fees imposed by CBP, particularly merchandise process fees–payment owed to customs brokers who bring goods into the United States on behalf of clients.

Recent changes in the law have made it possible for importers to significantly reduce their liability for these fees, but it requires the kind of volume that would be hard to achieve without an FTZ, according to Berry.

"Companies can do weekly entry–bringing all their goods into an FTZ once in a seven-day period," Berry says. "By doing that, they pay only one merchandise processing fee and generate one document. That is a huge cost saver."

CBP also allows goods brought into an FTZ sub-zone to move straight into the assembly line without stopping for paperwork.

"Companies that run 24/7 operations can bring merchandise into an FTZ, and file CBP paperwork the next day so they don't have to stop a line," Berry says. "But not every company qualifies, and it requires CBP approval."

The new CBP rules are especially helpful to major importers.

"The rules allow FTZ users to pay one merchandise processing fee for all the goods they receive within a week," Zevalkink says. "Because major importers generate thousands of purchase orders annually, these savings can be substantial."

3c

Port of Los Angeles

Currently, only port-based FTZs, such as the Port of Los Angeles, qualify for C-TPAT certification. Some FTZ operators are pushing for legislation that would also allow inland FTZs to qualify.

STAYING SUPER-SECURE

The emphasis on national security after 9/11 has also contributed to the growth in FTZ use.

"FTZs are especially well-suited to help companies participate in secure trade," Zevalkink says. "FTZs have to carry a bond that ensures they are providing security services, and they have to submit to FBI background checks."

Security at the KOM FTZ is the responsibility of Bill Ekberg, director of operations for Columbian Logistics Network. He oversees an elaborate security system comprised of 40 video cameras cataloging 45 days of archives, microwave motion detectors, and panic buttons at the only two doors that provide entry into the facility.

"The crown jewel of this security system is a portable wireless camera," Ekberg says. "We can put it anywhere in the warehouse if we suspect a problem."

Prospective employees are subject to extensive background checks. Columbian Logistics even calls their high schools to confirm that their diplomas and transcripts are legitimate. "They know coming in the door that this is a secure operation," Ekberg says.

PATCHING THE LEGISLATIVE HOLES

To streamline the process of moving goods, the federal government gives FTZs the opportunity to receive C-TPAT certification. Those who qualify must meet a set of important security standards that allows them to expedite the Customs inspection process.

While Hothem believes C-TPAT certification is crucial, she objects to the fact that–at least for now–only port-based FTZs qualify, and inland FTZs do not.

"Just because a container arrives in the Port of Los Angeles doesn't mean it has been opened," Hothem says. "The point at which it's first opened – when the seal is broken and the handle on the door is unlocked – should be included in the security sequence. To assume that once it gets to the port all potential security risks have been eliminated is inviting trouble."

FTZ operators are also pushing for another legislative change–one that would correct an anomaly in NAFTA that subjects a product assembled in Mexico to less duty than one assembled within a U.S.-based FTZ.

"The proposed legislation would allow free trade agreement status for FTZs located in the United States," Hothem says. "Within a year after the NAFTA agreement was signed, Canada and Mexico eliminated duties to foreign importers. So companies could bring in parts from Asia, assemble them in Mexico, and bring them into the United States duty-free.

"But if they brought those same parts from Asia into a U.S. FTZ, and assembled them into a television, for example, they would pay a duty as if it were manufactured in Asia," she adds. "That just doesn't seem fair."

Legislative issues aside, FTZs offer many benefits to importers and exporters, not the least of which is the ability to participate in legal tax evasion. ■

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THE GULF COAST'S RISING Tide

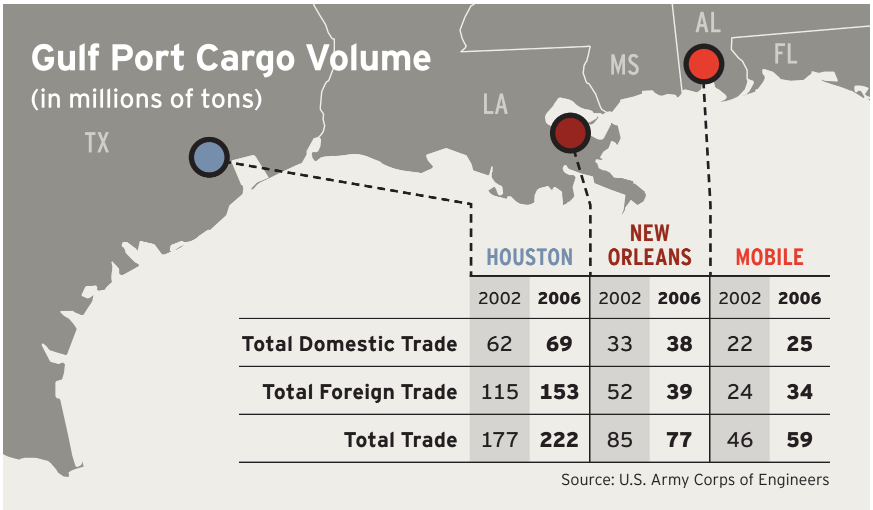
Spurred by its advantageous location, international trade prowess, and transportation assets, the Gulf Coast emerges as a new distribution and logistics powerhouse.

by Amy Roach Partridge

Mention the Gulf Coast region, and most Americans still immediately think of Hurricane Katrina and its devastating impact. But in the business world–and in the logistics realm specifically–the region now conjures images of new opportunities and economic prospects. The Gulf Coast is rapidly building a reputation as a growing hub for port activity, warehousing and transportation development, and big-box retail distribution.

Why is the region seeing such a boom in business growth? One reason is the oldest maxim in real estate: Location, location, location. The Gulf Coast region–which comprises coastal Texas, Louisiana, Mississippi, Alabama, and Florida–benefits from its proximity to a number of major U.S. markets, including the rapidly growing Southeast.

"Expect to see strong economic growth in the Gulf Coast area as the Southeast's population continues to grow and Gulf Coast ports garner favor as attractive alternatives to West Coast ports for bringing goods into the United States," notes Garrett Scott, president of the industrial division for Johnson Development Associates, a commercial real estate and development firm with a number of Gulf Coast properties.



Gulf Port Cargo Volume
(in millions of tons)

	HOUSTON		NEW ORLEANS		MOBILE	
	2002	**2006**	2002	**2006**	2002	**2006**
Total Domestic Trade	62	**69**	33	**38**	22	**25**
Total Foreign Trade	115	**153**	52	**39**	24	**34**
Total Trade	177	**222**	85	**77**	46	**59**

Source: U.S. Army Corps of Engineers

The ports of Houston and Mobile have posted consistent cargo volume growth over the past few years, and expect continued traffic increases despite the recession. Even New Orleans, which suffered losses after Hurricane Katrina, has seen boosted domestic trade.

The Gulf Coast's international-trade-friendly position along the Gulf of Mexico is another "location, location, location" benefit–one that keeps the region's ports flush with import volume. The Port of Houston, for example, ranks first among U.S. ports in both foreign trade imports (93.8 million tons valued at $61 billion) and total foreign tonnage (153 million tons valued at $114.8 billion) (*see chart*), rankings it has held for 17 and 12 consecutive years, respectively.

"Because of its location, the Gulf Coast is perfectly situated to handle an influx of business from outside the United States," notes Pat Younger, executive director of the Gulf Ports Association of the Americas, an association of Mexican and U.S. Gulf Coast port authorities.

In addition to the region's natural geographic advantages, three timely factors–a population shift to the southeastern U.S., a warehousing decentralization trend, and the ongoing Panama Canal expansion–are helping boost the Gulf Coast's economic prospects, notes Paul Bingham, managing director, global trade and transportation for economic research and forecasting firm Global Insight.

When it comes to population growth, the Southeast and Gulf Coast states shine. Texas, North Carolina, Georgia, and South Carolina were all among the 10 fastest-growing states in 2007, according to the U.S. Census Bureau. While the West was the fastest-growing region between 2007 and 2008, the South added the largest number of people–1.4 million–during that period. Regions with high population growth attract business development and economic efforts.

The Gulf Coast's economic growth has been sectoral, largely in automotive, aerospace, and technology manufacturing as well as retail. Within the last decade, many manufacturers have erected factories in the Gulf Coast, including Korean automaker Hyundai, which built a $1.4-billion assembly plant in Alabama; ThyssenKrupp, which is currently developing a carbon and stainless steel processing facility in Alabama; and Toyota, whose $1.3-billion plant in Mississippi is set to begin producing Prius Hybrids in 2010.

Spurring Regional Growth

In addition to creating jobs and stimulating the local economy, new manufacturing projects spur growth in area DCs and warehouses. Intermediary companies that supply goods for manufacturing, as well as companies that make finished products for manufacturers, need distribution centers (DCs) close to these new plants. The region's ports also benefit from the factories because manufacturers utilize the ports for bringing in goods–Hyundai, for example, imports auto parts for its Alabama factory through the Port of Mobile.

Regional growth in the manufacturing sector and its feeder companies dovetails nicely with another trend in warehousing and distribution that benefits the Gulf Coast: decentralization.

The once-popular model of utilizing one mega DC to serve a national population is eroding in favor of a multi-DC model. "Following the 2002 West Coast ports lockout and legendary 2004-2005 congestion at the Southern California ports, purchasing and import managers have adopted a diversified gateway strategy for imports," explains Bingham.

This "don't put all your eggs in one basket" approach has led retailers and

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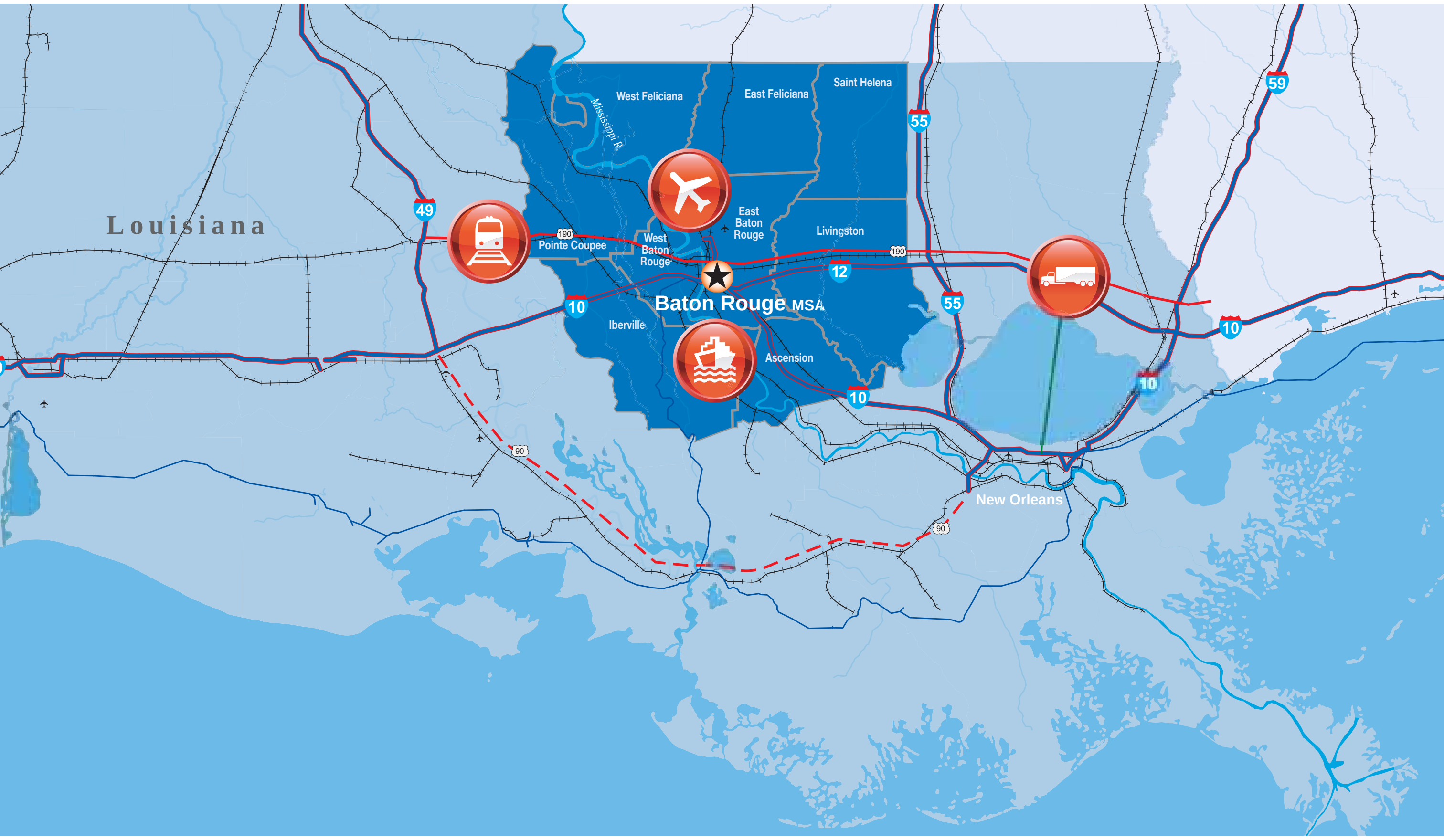

The Port of Greater Baton Rouge is the furthest inland deep-water port in the U.S., ranked 10th in the nation by cargo volume.

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Contact: Chad Cornett | chad@brac.org | 225.381.7136 manufacturers to spread out their distribution networks, using small regional DCs to minimize costs and risks while serving local population sectors. The Gulf Coast becomes a logical area to place a regional DC because it can serve the rapidly growing Southeast population and offers many import gateways.

The Facilities Factor

Industrial parks and warehousing facilities are sprouting up near ports throughout the Gulf Coast to serve businesses targeting this area for decentralized manufacturing and distribution operations. These facilities, often the result of public-private partnerships and government stimulus packages, are key for economic development officials seeking to win over site selectors. Here, just a few of the many industrial parks in the Gulf Coast:

- Johnson Development Associates' 150-acre Port City Commerce Park in Mobile, Ala., and its 190-acre site near the Bayport terminal at the Port of Houston aim to serve companies looking for alternate inbound/outbound opportunities.
- Port Crossing Commerce Center, a recently opened 295-acre commercial and industrial business park built by Houston-based developer National Property Holdings, boasts a prime location between two Port of Houston terminals, as well as a 900-car rail yard.
- Louisiana's Tangipahoa Parish is home to The Zachary Taylor mega site, a 2,900-acre industrial site and one of only 25 certified mega sites in the United States. It is ideal for automobile manufacturing or similar large industrial projects.

The last of the three converging factors currently impacting Gulf Coast growth will arguably have the most dramatic impact on the region's logistics and distribution landscape.


The completion of the Panama Canal expansion project will allow large, post-Panamax ships passage. Container volumes at Gulf ports will likely increase as a result.

The Panama Canal expansion – a $5.2-billion project encompassing the construction of two new sets of locks and the widening and deepening of existing navigational channels – will allow large, post-Panamax ships to pass through the Canal. This access will make the all-water route from Asia through the Canal and into the U.S. Gulf Coast an attractive option for shippers and carriers transporting containerized cargo. This route allows its users to bypass West Coast and East Coast ports, which are far more congested than their Gulf Coast counterparts, and provides a gateway that makes sense for companies targeting the Gulf Coast's or Southeast's regional population.

"The current model changes dramatically once shippers are able to realize the advantages of the Panama Canal expansion by bringing product closer to their actual market without congestion and its associated expenses," explains Michael O'Leary, president, The Grimes Companies, a third-party logistics provider based in Jacksonville, Fla. "The growth and expansion of the Gulf Coast area is timed perfectly to capitalize on the Canal expansion."

The Houston Port Authority also expects to see an uptick in cargo volumes as a result of the Canal expansion. "The Port predicts that its container volume will increase 11 percent a year for the next five years as a result of the larger, more efficient ships coming through the Panama Canal," says Jeff Moseley, president and CEO of the Greater Houston Partnership, a member-based economic development organization.

Looking Long Term

While the expansion is not slated for completion until 2014, its impact on infrastructure projects is already being felt at Gulf Coast ports. "All our member ports are looking at widening and deepening their harbors to accommodate the post-Panamax ships," says Pat Younger of the Gulf Ports Association.

Although the U.S. economy is in a recession, many in the area's business community say that the current economic climate will not impede the Gulf Coast's long-term growth and sustainability. For one thing, a recession forces companies to concentrate on supply chain operations, and the Gulf Coast's logistics-friendly environment may appeal to businesses seeking to

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maximize supply chain efficiency.

"Companies that ignored supply chain costs because of the value of their goods or the margins they were making now realize that attitude is unsustainable. They will need to become supply chain competitive to survive," explains O'Leary. Achieving this goal may entail maximizing regional distribution networks and/or shifting some cargo volume to Gulf Coast ports in an effort to cut costs, he notes.

Imports Stay Strong

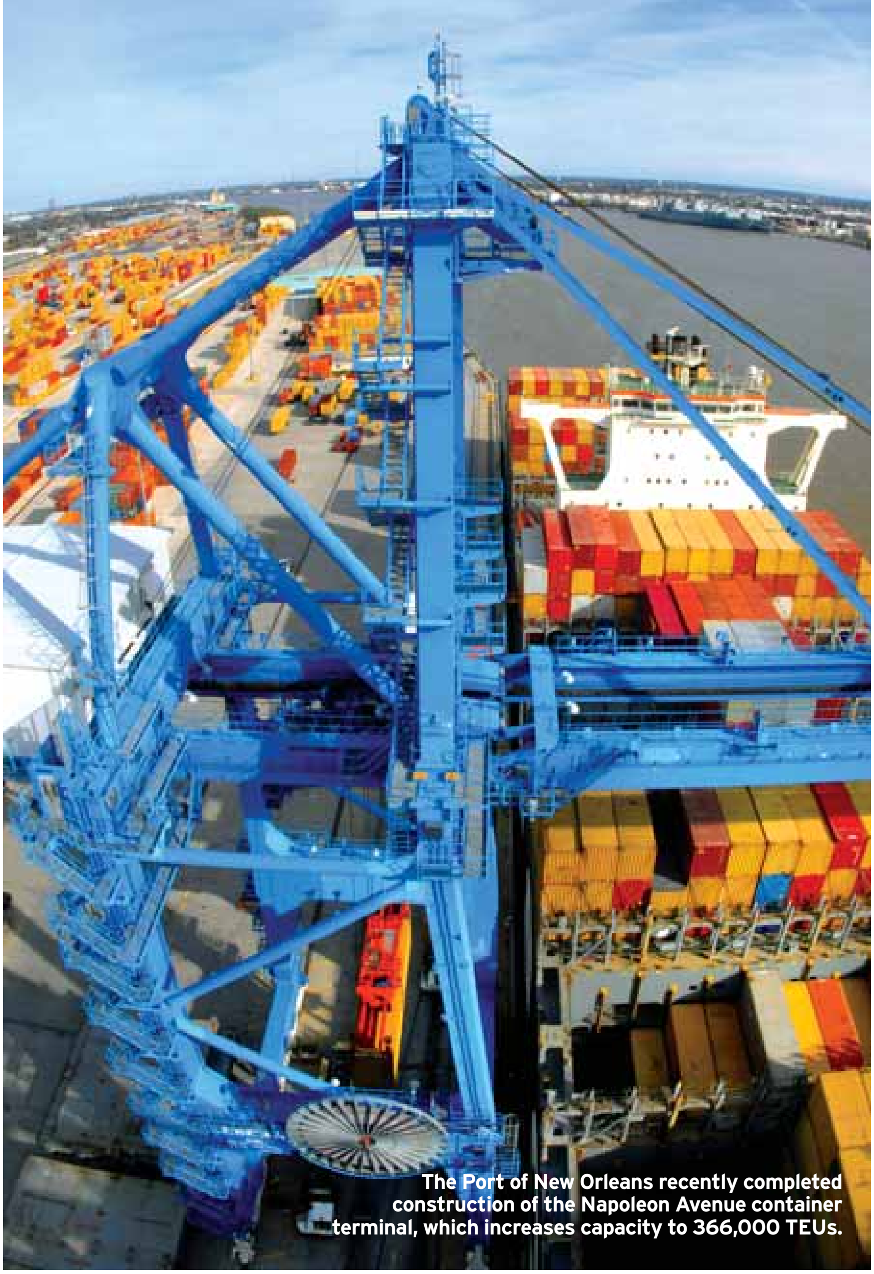
U.S. dependence on foreign goods is not abating, so even though consumers are buying fewer goods these days, the long-term view for import-heavy areas such as the Gulf Coast is positive.

"Ports may weather temporary trends where a certain cargo or commodity is down for a year or so, but the general trend is upward. It has to be, because so much of what we consume is produced in other countries," notes Chris Bonura, communications manager for the Port of New Orleans.

Finally, the ongoing social, economic, and demographic trends that have made the Gulf Coast a desirable business area are partly what have insulated it, to a degree, from the crushing impact of the nation's housing and financial crises. Overall, the region's population is expected to continue growing, which will increase its consumer demand and job prospects.

"That factor, combined with supply chain and logistics strategies driven by fundamental economics–namely, using a diverse strategy to feed distribution networks and minimize cost and risk to serve a market–add up to a bright prospect for the Gulf Coast," says Bingham.

Following is a snapshot of three Gulf Coast cities–New Orleans; Mobile, Ala.; and Houston–that believe their economic development climates will keep them thriving despite the economy's woes.



The Port of New Orleans recently completed construction of the Napoleon Avenue container terminal, which increases capacity to 366,000 TEUs.

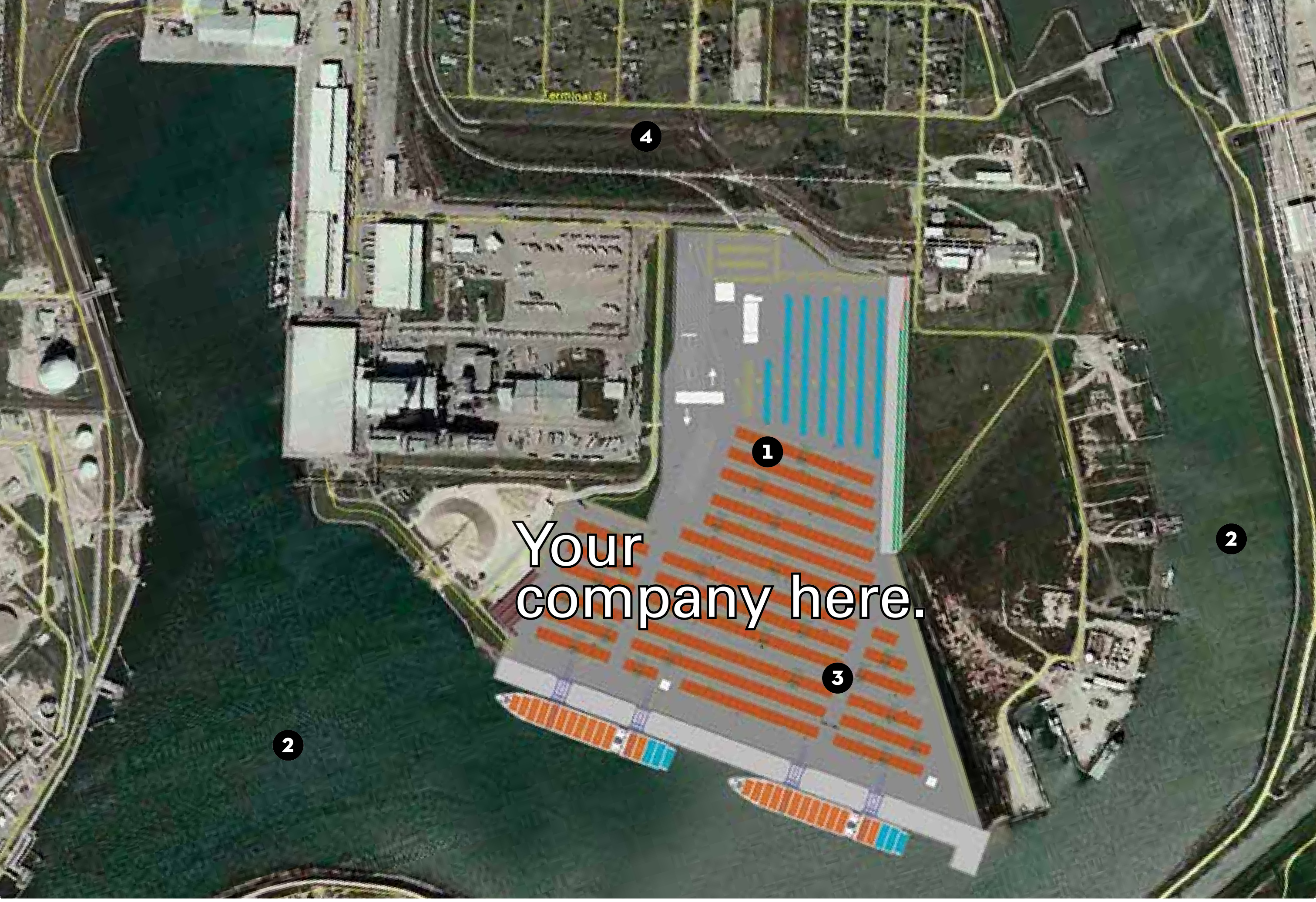
NEW ORLEANS: Rebuilding Stronger

No city was more affected by Hurricane Katrina than New Orleans, but the Big Easy and its surrounding parishes are rebounding slowly but surely. In fact, recovery programs put in place after the 2005 hurricane have ironically helped New Orleans stay afloat amid the current recession.

"Thanks to billions of recovery dollars and the counter-cyclical nature of our regional economy, we are relatively better off than many other areas," says Austin Marks, chief of staff, Greater New Orleans, Inc. (GNO), a regional economic alliance. "We are not rebuilding the same, we are rebuilding better."

The memory of Katrina has not scared away companies looking for Gulf Coast operations. Rooms to Go is constructing an 800,000-square-foot distribution center in Pearl River, La., just outside New Orleans in St. Tammany Parish. The Seffner, Fla.-based furniture retailer will use the DC to serve the Gulf Coast, allowing for expanded next-day delivery for customers from Panama City, Fla., to Baton Rouge.

Rooms to Go selected the Pearl River site for a variety of reasons including: a readily



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available workforce, proximity to four interstates and the Port of New Orleans, and access to a Norfolk Southern rail route, says James Hartman, communications director for the St. Tammany Economic Development Foundation.

GNO's international trade assets have also lured major firms such as Wal-Mart, Winn Dixie, and Folgers Coffee to locate distribution operations in the area. Indeed, expanding the state's share of distribution and manufacturing operations is a key element of the Port of New Orleans' 2020 Master Plan, notes Gary LaGrange, the Port's CEO. Port officials are working closely with economic development and government groups to make that happen.

"Our new leadership is pushing for policy changes to improve our business climate and creating incentives that will encourage business development in the region," explains GNO's Marks. GNO officials expect four new target business sectors– international trade, distribution, and logistics; advanced manufacturing; energy, petrochemicals and plastics; and creative and digital media–will join the area's booming oil and gas sector.

Port at the Ready

The Port of New Orleans plays a key role in the region's growth picture. As with other Gulf Coast ports, the Port has been preparing for increased container trade from the Panama Canal expansion. Its recently completed Napoleon Avenue container terminal was built with the expansion in mind and gives the Port 366,000-TEU capacity. And the Port is looking to help New Orleans branch out into trade throughout the United States.

"The Port of New Orleans follows a different business model than some other ports," Bonura notes. "Because of its transportation infrastructure, it can look beyond the Gulf and serve as a hub for cities such as Memphis, St. Louis, and Chicago using intermodal rail service."

MOBILE: The Little Port Area That Could

"Where else can you find five class-A railroads, two interstate highways, an 11,000-foot runway, and a deep-water port all within a half mile of one another?" asks Garret Scott of Johnson Development Associates (JDA), explaining the appeal of Mobile, Ala., where JDA has just completed a 150-acre industrial development called Port City Commerce Park.

The city's robust transportation infrastructure is one of its key assets, and a principal reason that JDA decided to build Mobile's first speculative class-A industrial facility, confident it can lure 3PLs, retailers, and manufacturers.

"Mobile is a dynamic market with a diverse economy–from shipbuilding to aerospace to the steel industry–and we think it is a great distribution hub," explains Andy Halligan, who oversees JDA's Mobile office.

Halligan is not alone. Major companies such as Hyundai, ThyssenKrupp, and Northrop Grumman have all put down roots in Mobile thanks to its solid lineup of transportation resources. At the top of Mobile's infrastructure checklist is the Port of Mobile's new 135-acre container terminal, which boasts an 800,000 TEU capacity.

With carriers including Zim Lines and CMA CGM adding Mobile to sailings from both Asia and Central America, port executives are confident that the new terminal will attract business. "The port provides companies a competitive alternate import and export gateway," says Jimmy Lyons, CEO, Alabama State Port Authority.

The new terminal is also helping Alabama shift from a mining, forest, and

Thanks to the Port of Mobile's new container terminal, manufacturers looking to bypass West Coast ports in favor of the Gulf Coast consider Mobile a viable option. Numerous regional supply and service distribution companies already have locations in the city.

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agricultural economy to a manufacturing state. "We expect to see more distribution activity in Mobile because the new terminal supports the needs of our growing manufacturing sector," Lyons notes. And because the facility is new, it is well- equipped to handle the larger ships that will sail through the expanded Panama Canal in the future.

In addition to the container terminal, the Port is solidifying plans to build a rail intermodal facility to help extend its reach as a distribution hub. Public and private entities in Alabama are also working together on other infrastructure improvements such as a bridge project and a possible new highway construction plan. These developments give the area appeal for businesses looking for the right site to locate new facilities.

"Without the Port, Mobile would not have won the $3.7-billion ThyssenKrupp project, or the Northrop Grumman advanced tanker project awarded earlier this year," says Win Hallett, president, Mobile Area Chamber of Commerce.

Furniture manufacturers looking to bypass West Coast ports in favor of the Gulf Coast have also shown interest in Mobile, and numerous regional supply and service distribution companies, including ACE Hardware, Blue Bell Creameries, and Sherwin Williams Paints, have locations in the city.

As for the current economic slump, JDA's Halligan believes Mobile will be able to ride out the storm.

"A number of factors make Mobile less affected than other locations–it didn't have the big runup in housing prices, and it has a diverse economy and favorable labor environment," Halligan says.

These upcoming projects, Mobile's existing infrastructure, and the Port's overall strength have already been a boon to business development efforts, making Mobile one of the fastest-growing metro areas in the country.

HOUSTON: Bigger is Better

Everything is big in Texas, as the saying goes–and Houston is no exception. With a population of more than two million people, the city is the fourth largest in the country. And its list of attractive business attributes is big, too: the city boasts the largest container port in the Gulf Coast, as well as the 11th-biggest international air cargo gateway in the country; comprises the second-largest state economy in the United States; and has one of the largest concentrations of industrial space in the nation.

These favorable conditions have enticed many companies to make Houston their Gulf Coast home. "Between 2004

In addition to having the largest container port in the Gulf Coast, Houston offers a network of highway, rail, intermodal, and air connections that keep cargo moving through the region.

and 2007, the Greater Houston Partnership assisted 90 companies in relocating or expanding to the Houston region, producing a $7.9-billion impact on the local economy," says Jeff Moseley, president and CEO of the economic development organization.

The city's network of highway, rail, intermodal, and air connections, as well as the Port of Houston's longtime leadership in foreign trade, also helps boost its site selection activity.

"Many businesses, such as cold storage warehousing company Preferred Freezer, have built new facilities near the Port of Houston," explains H. Thomas Kornegay, Port of Houston Authority executive director. "Also, speculative construction of multi-tenant distribution centers and warehouse space is taking place to accommodate a growing market."

Area industrial parks such as Port Crossing Commerce Center, Port 225, Cedar Crossing, and Chambers County Industrial Park represent some eight million square feet of available industrial space.

The Port is also in a prime position to capitalize on the expected increase of traffic through the Panama Canal, thanks to the $1.4-billion expansion of its Bayport Container Terminal–a big draw for businesses looking to make the Gulf an import distribution hub.


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One such company is Arizona Tile, a distributor of stone, ceramic, porcelain, and glass tile that imports products from Brazil, Peru, Italy, China, India, and other countries. The firm opened a 300,000-square-foot facility in the Port Crossing industrial park in July 2007.

"We decided to have a port of entry in Houston to help facilitate material imports for our locations in Colorado, New Mexico, and Arizona," says Gary Skarsten, Arizona Tile's executive vice president. "We view the Port of Houston and our new facility as an important location to help meet our importing needs now and in the future."

Other companies that have selected Houston as an ideal site for a logistics hub include Cardinal Health, Home Depot, and Igloo Products. And Wal-Mart is currently constructing a two-million-square-foot facility, its largest regional distribution center in the country, in the Houston Ship Channel area.

New Orleans, Mobile, and Houston are just three of the many Gulf Coast areas reaping the unexpected logistics benefits of a changing global economy. ■

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INBOUND LOGISTICS' NAFTA SUMMIT REPORT

Growing Together

Insider Perspectives on the NAFTA Nations' Economies »»

It only takes a brief look at how quickly global economic dominoes fell in unison recently to understand that national economies are more inter-related than ever before. The trading bloc in our hemisphere–NAFTA–is as good an example as any, and one worth probing deeper.

It has been more than 15 years since the United States, Canada, and Mexico signed the North American Free Trade Agreement, dramatically changing the region's trade prospects and economic reckoning. But is NAFTA leaving global trade dollars on the table by not being as competitive as it could be?

To answer that question, *Inbound Logistics* and sister publication *Inbound Logistics México* hosted a panel of North American trade and transportation experts. They recently met in Dallas to discuss the common trade interests among the three countries and to develop plans for fostering greater cooperation.

The group included the Canadian Consul General and representatives from the advocacy group North American SuperCorridor Coalition (NASCO), Mexico's Urban Land Institute think tank, the Mexican state of Nuevo Leon, the Port of San Antonio, and other organizations leading the drive for development in the three countries. The participants discussed the NAFTA partners' shared challenges, strategies for strengthening individual and collective economies, and the importance of logistics in the public and private sectors.

Listen in as these thought leaders come to grips with the challenges facing the NAFTA countries. »»

Panel Participants (*standing, left to right*): **Keith Biondo,** Publisher, Inbound Logistics · **Jorge Canavati,** Vice President of Business Development, Port San Antonio · **Franco Eleuteri,** Franco Eleuteri & Associates, LLC · **Jose Maria Garza,** President of Construction & Development Division, Grupo Garza Ponce · **Diego Semper,** Managing Director, Intramerica GE Real Estate Group · **Tiffany Melvin,** Executive Director, NASCO · **Francisco Conde,** Director of Special Projects & Communications, NASCO · **Norris Pettis,** Canadian Consul General · **Todd Carter,** Vice President & General Manager, Global Transportation Management, Ryder · **Hugo Gonzalez,** Director of Logistics Development, INVITE, State of Nuevo Leon · **Guillermo Almazo,** Publisher and CEO, Inbound Logistics Mexico · **Mariana Perrilliat,** Chief Legal Officer, Industrial Global Solutions (*seated, left*) · **Blanca Rodriguez,** Chair, Urban Land Institute Mexico (*seated, right*) · **Ruben Navarro,** Associate Director, Central Bajio, NAI Mexico (*not pictured*)

Left to right: Semper, Perrilliat, Conde, Carter, Rodriguez

Infrastructure

Transportation infrastructure is crucial to the success of North American trade. Each NAFTA country faces infrastructure challenges that degrade efficiency and impact the region's collective ability to act as an effective international trading bloc.

In many areas of Mexico, roads are in very poor condition. This reality, combined with limited rail capacity and port and border congestion, forced government's hand recently when it announced a transport infrastructure investment plan of historic proportions–$45 billion to be spent over the coming decades. Canada is challenged by a long and sparsely populated western border, the Great Lakes, and crowded cross-border chokepoints. And despite developed infrastructure, the United States faces huge expenditures to repair and maintain its broad transport network and expand capabilities to address new and ever-changing trade patterns.

Hugo Gonzalez, INVITE, State of Nuevo Leon: Mexico's borders are a mess. In Tijuana, Laredo, and Nogales alone, the economy is losing $2 million daily to congestion, according to a Mexican research study. In Monterrey, 80 percent of traffic moves by road and it is very inefficient. The railroad is under-performing and air service is expensive. These conditions must be improved.

Todd Carter, Ryder: For Ryder, a lot is riding on Mexico's proposed infrastructure improvements. Ryder does business with 1,700 carriers and makes four million moves a year, with as many as 4,000 Mexico and 3,000 Canada border crossings each month.

Norris Pettis, Canadian Consul General: Seventy percent of Canada's trade travels over the road. That means a truck has to cross the U.S. northern border every two seconds, or else we will experience great difficulties.

The Great Lakes and the location of industry create natural chokepoints. There is a large geographical border west of the Lakes, but most trade takes place in the East.

Franco Eleuteri, Franco Eleuteri & Associates: Mexico's inland port is one major project. Poor infrastructure costs an additional $2 billion annually for truck shipments moving from Monterrey to Dallas–so the need is desperate. This inefficiency handicaps us when Mexico's goods compete with China-manufactured products.

Diego Semper, Intramerica: In the maquiladora area, the first industrial park was built only 20 years ago. Since then, the area has experienced growth, but it has been around the ports, not inland. The investment in these industrial parks is similar to the tourism industry: If you want global tourists to come, you must build good hotels.

In the industrial sector, we create warehouses and industrial parks to attract global trade. But these facilities can't exist on their own. Even if the heart is healthy, nothing can happen without good arteries. This emphasizes the importance of connectivity between Mexico's road, rail, and port facilities.

Jose Garza, Grupo Garza Ponce: The total cost of making a product in Mexico puts the country at a global disadvantage. For example, the logistics cost for producing a car in Mexico is 40 percent, as compared to 10 percent in the United States. How is this possible? For one, a single railroad bridge has not been built between the United States and Mexico in 100 years. Making things worse, Mexico only has two rail carriers. It's hard to compete with that kind of monopoly.

Also, consider the Rio Grande river flowing from the United States to Mexico, and the corollary flow of goods across the border. Five dams contain the river's flow; but there is only one dam–one entry point– for overland

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freight. No wonder there's so much congestion.

We're trying to build a dam to increase transportation flow in Monterrey, and we hope to build dams in San Antonio and Dallas, too. Having binational Customs on- site to allow U.S. consignees to pre-clear shipments also will help.

This is Mexico's second chance to be successful as an economic power, and we cannot waste it. The country had its first chance when NAFTA was created, but we squandered that opportunity and China filled the void. Despite Mexico's proximity to the world's largest market, China became the United States' large trade partner.

Ruben Navarro, NAI Mexico: In many manufacturing areas, we've managed to reduce the cost of making the product, but not transporting it. We need infrastructure improvements, and we need to rationalize the ratio of freight movements between rail and truck transportation.

Pettis & Biondo

In addition to transport infrastructure, facility investment needs consideration. We need industrial parks and locations for manufacturing and value-added distribution and logistics activities.

Within and around these facilities, necessary improvements to information technology architectures can similarly drive business excellence. For example, a project underway at the Port of Manzanillo aggregates and digitizes Customs information, and posts it on the Internet so everyone can access and assess this data. Unfortunately, we don't promote the importance of IT infrastructure aggressively enough.

Carter: Technology is definitely an advantage to North America, given the length of its supply chain. Information will continue to flow faster and faster, and if it doesn't, barriers to trade will only grow. In some countries you can't receive goods unless that technology is in place.

Although we're not promoting regionalism, the economic conditions are ripe for North America to become a competitive force in international trade. Not long ago, for example, the price of shipping containers from Shanghai to Oakland tripled. Costs have since come down, but they may go back up again. These shifts create more opportunities in the region, and a tremendous advantage to foster tighter trade if we endeavor to use NAFTA's benefits to compete globally.

Macroeconomic conditions are prime right now to achieve this goal, but it will take leaders who understand the importance of transportation, logistics, technology, and infrastructure, and act on improving them, to seize this opportunity.

It also will take people like us to move things along. The green initiative is an ideal starting point because efforts are already underway to reduce transportation costs and emissions and they span the region.

I wonder if our respective governments realize that conditions are ripe for change. Some have said these new infrastructure programs may take 20 years to achieve. I don't think we can wait 20 years. Other regions aren't waiting, they're moving now. We have to follow their lead.

National Security and Customs

One of the most prominent issues in North American trade is border-crossing security regulations in a post- 9-11 era. Discussion panel participants agreed that Customs clearance and security go hand-in-hand. There was near unanimity in a call for harmonizing security requirements across the NAFTA bloc.

Semper: We need Customs pre-clearance throughout all the NAFTA countries because there is no way you can have just one secure entry/exit point and expect to succeed as a competitive global trade bloc.

Pettis: A few years ago, Canada and the United States issued a Smart Border report that established areas beyond the border where shippers could pre-clear cargo. In the post-9/11 world, however, several different security regimes are in effect. These processes were well-intentioned from a security perspective, but they were established without considering the unintended collateral effect they might have. For instance, we have situations where a cargo shipment is cleared, but the truck driver isn't, creating another chokepoint.

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can cause significant slowdowns. I've heard of some Canadian suppliers sending two trucks with the same critical cargo across the border to make sure that at least one gets through in the requisite time period.

Border slowdowns cost North America billions of dollars. In Canada, we are engaged with the U.S. government on regulatory issues. But it's a tough sell because of the Department of Homeland Security's (DHS) superseding mandate to secure the nation. The DHS operates with a law enforcement mentality; trade considerations are secondary.

Eleuteri: In the past, we were only concerned about Customs pre-clearance, but in this post-9/11 era, we have to consider both Customs and security clearance. If you don't clear both, you have the same problem when you cross the border.

The current sophistication required for Customs pre-clearance is not sufficient to get the job done. Unfortunately, it is very difficult to reliably secure truck cargo. Even if the freight is secured at the point of origin, how do you ensure no contamination occurs in transit? You have to validate that the move has not been interfered with, and we have yet to reach that level of surveillance in North America. I've seen it done elsewhere, between China and Hong Kong, for example. We may consider applying lessons from other parts of the world.

Risk

Establishing regulations intended to create more secure cargo and border crossings comes with a cost. It becomes necessary to tolerate a degree of risk in order to keep cargo traffic moving. *Inbound Logistics*' research shows upwards of 100 million inbound events to the United States each year. It is clear that there is no way to secure every one of those shipments. That begs the question: aren't we already tolerating a certain amount of risk?

Carter: Yes, we are. In security and risk discussions, emotions tend to run high and exercise a disproportionate influence on balancing some degree of risk with the gain of economic growth. This emotional approach sometimes results in poor legislation being enacted in the United States, hurting the economy and costing jobs. People's lives are certainly important, but legislation impacts these other areas. That means tolerating risk to stimulate trade for our economies.

Garza: U.S. security is not a reality; it is theoretical. From my perspective, the United States may be paying too high a price for security. But the political price of not appearing to support an assumption of security may be too much for some political and corporate entities to bear.

Solutions

The infrastructure and security challenges facing NAFTA are complicated, but there are solutions: public-private partnerships, small successes leveraged to create others, and constant lobbying to educate public leaders–from grassroots to national levels–on the importance of transportation and trade policies and their role in creating jobs and stimulating economic growth. Making a case for securing NAFTA trade is one way to bring greater efficiency to the bloc while drawing greater interest from the public sector.

Carter: If the North American nations don't all treat security the same, then we face continuing disruption in the flow of trade. Security policy must be harmonized.

Gonzalez & Eleuteri

Pettis: In April 2008, I spoke at the North American Leaders' Summit in New Orleans. I asked the audience of more than 100 people if they had heard of the Security and Prosperity Partnership of North America (SPP), a trilateral effort to increase security and enhance prosperity among the three NAFTA countries through greater cooperation. Not one person raised a hand. It brings to bear the lack of public-private trust and the inability to put cooperative initiatives together.

Is it a systemic problem and an inherent distrust of processes among our governments? We need to show people that reducing obstacles to trade will not harm their sovereignty. Certainly, we have a track record with NAFTA.

It's also a compelling part of our job to talk to the general populace and let them know that fostering trade is in their best interest. It's extremely important because until you do that, how can you get the political support necessary to marshal commitment and make these transportation and logistics infrastructure investments?

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There is a distinction between the northern and southern border of the United States. There is tighter integration on security issues between the United States and Canada than between the United States and Mexico. Canadian and U.S. law enforcement work together on security issues. More remains to be done, but we have a good start and a working relationship.

Francisco Conde, NASCO: NASCO is taking the initiative to use its technology and contacts to create a standard for cross-border security practices and compliance. The U.S. government looked at what NASCO was doing and adopted those practices on a federal level.

Tiffany Melvin, NASCO: Efforts to harmonize Customs and security requirements are critical, and no other initiative is underway in the three countries to achieve that. If NASCO's security efforts are successful, not only will it directly benefit those along the NASCO corridor, it will serve as an example to others on how to move forward.

Carter & Rodriguez

Leadership

Government leaders can help boost trade. But in many instances they act to prevent NAFTA's ability to compete with other areas of the world, such as the European Union and China.

North American countries are more alike than they are different. We should recognize this and work collaboratively to communicate better, integrate culture and education, and place pressure on our respective governments to make a concerted commitment and allow our economies to grow. Politicians lead to get votes, and don't necessarily act in the best interests of the people. Why do policymakers act this way? What can be done about it? How can public and private sectors work together to drive economic development and security initiatives?

Mariana Perrilliat, Industrial Global Solutions: One challenge is getting government officials to see the larger picture. They often don't understand the full import of how their actions impact trade with Canada, the United States, Mexico, and our neighbors. Mexico's global competitiveness is at stake. If government officials don't recognize these political realities, Mexico will not grow. The business community is perceived as the end consumer or beneficiary of economic development projects, but that's not true. It's the country's workforce and population who stand to gain.

Eleuteri: Government wants to promote shared economic goals; the private sector wants to make money. Leaders have to create – and promote – a mutual benefit. We're all entangled in our own interests–the private sector in earning money, the public sector in getting votes.

When I was consulting in China, I was told: 'If you're coming here to give us the same caliber of infrastructure the United States and Europe have, we don't want it. We want to leapfrog them so we can become economic leaders.'

While we're frittering away resources, China is using its transportation and logistics superiority to drive continued economic domination. It speaks to motivation. Global competitors are motivated to use transportation and logistics infrastructure to achieve economic dominance. We've been talking about it for 20 years, but haven't grasped that shared goal or practiced it yet. The Chinese and others are acting in their self-interest; they are motivated to get things done.

Pettis: It is in Canada's interest to see these infrastructure improvements come to fruition – not only in Canada and the United States, but also in Mexico, because together we're a North American economic base. It benefits us to see the smooth flow of North American trade; we need that synergy to combine the strengths and offset the weaknesses so we can become global trade competitors.

Navarro: There are benefits to working in North America, but in the past Mexico has missed the opportunity. In China, the regime is autocratic, has control, and is market-driven.

Mexico President Felipe Calderon is more democratic, but not as market-driven as leaders in Asia. Mexico is struggling with corruption and taxation issues, but we are addressing these concerns, which increases opportunity. The United States, Canada, and Mexico must act together.

Three years ago, South Korea had half the per capita GDP of Mexico. Today it has more than two-and-a-half times the GDP of Mexico. That's a lesson for us. How can we compete if we don't work together?

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Eleuteri: It comes down to the shared interest of our governments and it is usually built around a deal–how many jobs will be created, what volume of tax revenue and profits will be generated?

Melvin: The goal of harmonizing security may be too big to tackle all at once, so perhaps affected groups can cooperate to address the challenge one step at a time. Business leaders in the NAFTA countries should coalesce around NASCO to move these security initiatives forward. They've taken some preliminary steps and are working with the government agencies that are already involved.

Gonzalez: Mexico's leaders are starting to take steps. At a recent Borders Governors Conference, a meeting of governors from the United States' and Mexico's border states, one transportation roundtable made recommendations on how both countries can work together to reduce traffic congestion. Ten governors on both sides of the border are considering the plan, which is a good start.

Garza: Progress requires small steps and short-term goals. For example, our Monterrey project comprises three components: First, building a dedicated and secure highway; second, completing two inbound rail carrier terminals; and third, rolling out Mexican and U.S. Customs pre-clearance. These small steps incrementally move us forward in accomplishing our larger mission.

Public-Private Partnerships

Sometimes the public sector is criticized by business and labor interests for being too focused on its own goals, not taking the long-term view, and failing to push improvements for the greater good. The private sector is often criticized for ignoring shared public interests and focusing only on profits. What can be done to mediate these exclusive objectives?

Gonzalez: Often, the public sector doesn't understand the importance of transportation and logistics. It's tough for them to understand the value of logistics because, in the past, transportation was considered a cost of doing business. Today, it's considered a value-add, a competitive advantage. And value-adds can drive competitiveness not only for a company, but also for a region.

The combination of public will and private resources can move infrastructure projects forward. Even though the Mexican government has a greater understanding of infrastructure's importance, the individual states still need to work together. They're still focused on whether an initiative is good for the state rather than beneficial to Mexico as a whole.

Pettis: Canada needs additional rail and truck crossings. Those could fall under both public and private authorities. We have the privately-owned Ambassador Bridge, and there's talk of building another. Understandably, discussions revolve around who's going to pay for it: The public sector? Private sector? Both?

Melvin: NASCO is designing a project that will provide complete supply chain visibility for responsibly handling and moving shipments through the corridor. This program would allow us to not only know where products are in real time, but also what happens to them within the containers–events such as temperature changes and security breaches. This monitoring is electronically connected with a Web site that can send delivery time information to the shipper's Blackberry or personal computer.

Conde: Here's an additional benefit to public/private partnerships moving forward with security initiatives: they can provide real-time information to every state and federal law enforcement entity in the event of a natural disaster such as a hurricane or any other supply chain disruption.

For example, when I-35 traffic was disrupted in May 2008, NASCO talked to seven district Department of Transportation departments in Texas, and we learned they had never talked to one another before. One department would shut the roadway for maintenance without talking to the other districts, and not realize its impact on trading relationships at the district office level.

That kind of thinking still exists. The only way to counteract this siloed communication is to raise the collective consciousness of everyone in the shipping community, from local levels on up to the top. We strongly urge shippers to vigorously support integrated public/private partnerships such as NASCO and others that are seeking to change this insular thinking, which is disruptive to the economies of the three NAFTA countries.

Eleuteri: Although each operates in its own interest, when the private and public sectors work together, progress really happens.

I was recently involved in a public-private partnership to build an industrial city in North Korea. The most-closeted communist government in the world worked together with my client, a leading multinational manufacturer. If that can happen in North Korea, the public and private sectors in North America can work in partnership, too. If you can create special economic zones in China, with its corruption, culture and language differences–the same things we face in this hemisphere but larger by a factor of 10–then why can't we do it here?

Navarro: Our three countries must understand that there are different levels of development, and because of that, Mexico is a land of opportunity. Mexico offers building and manufacturing growth; metals, electronics, retail growth–even aerospace production–with very low barriers to entry.

Mexico has proven that it has capacity, but does it have the attitude to continue to change? I think so. It will take time, but our three economies will grow together.

Perrilliat: We should try to push initiatives to make change real, then truly act as a trading bloc. If we consider these broad-based efforts as small, incremental changes, it will be more doable.

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Past inaction has been blamed on cultural differences among the three NAFTA countries. There are differences among us in this hemisphere, that is true, but that is no excuse. Look at Europe's example. Many individual countries set aside their cultural differences to work toward a common goal and act as a trading bloc. They say, 'We are not going to speak the same language or be one country,' and yet they act closely and with a shared interest. If it is possible there, it is possible here with Canada, the United States, and Mexico.

Last Word

Canada, Mexico, and the United States need to get together and carefully address how cementing the collective whole– in terms of infrastructure, security, trade policy, technology, and public-private collaboration–can benefit each country by expanding their respective trade interests. If the NAFTA region is to compete as a global trading bloc, its advantages need to be shared and leveraged, and its challenges and risks must be met en force, rather than apart. NASCO's example offers a path to follow. But as a global trading power, NAFTA will not be able to compete with China, the European Union, and other emerging markets if it remains mired in parochial interests that diminish shared efficiency.

Talking the talk is a small step toward walking the walk. How can industry and the public sector take these talking points and make them actionable? What effort is your company making to enlighten government of the inherent challenges and opportunities that await North American trade? We'd like to know. Email: editor@inboundlogistics.com

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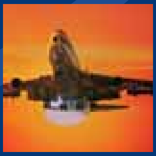

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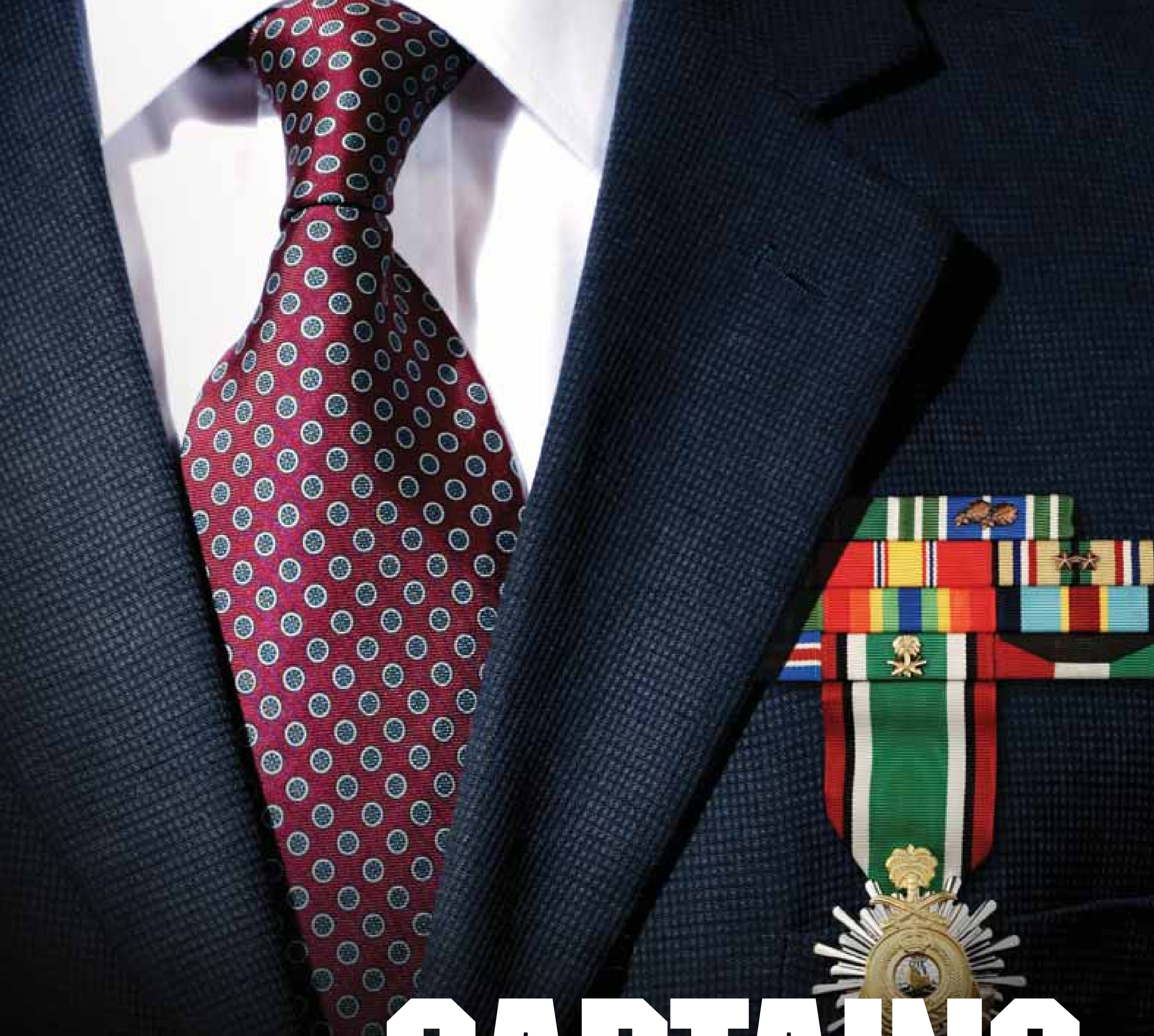
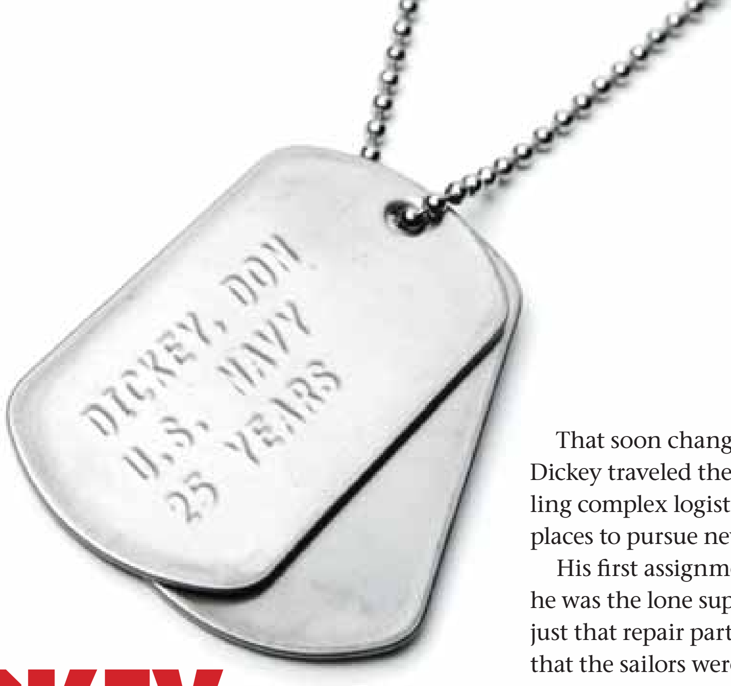


CAPTAINS [AND LIEUTENANTS AND MAJORS AND COLONELS] OF INDUSTRY

MILITARY VETERANS AT THE FRONT LINES OF THE SUPPLY CHAIN

BY TAMARA CHAPMAN



DON DICKEY

LEARNING HOW TO LEARN

WHEN DON DICKEY RETIRED FROM THE U.S. NAVY AFTER A 25-YEAR STINT WITH ITS SUPPLY CORPS, HE KNEW HE WANTED TO DO SOMETHING DIFFERENT. That was, after all, what his Navy experience prepared him for: doing something different at the drop of a hat, every day.

Since leaving the Navy in the mid-1990s, Dickey has put his military logistics background to work at a variety of small and large companies, deploying his skills to build supply chains from scratch, ensure smooth manufacturing operations and, well, do something different.

Until recently, he was vice president of logistics and customer support for Utah-based WiLife, maker of the Digital Video Surveillance System. When the company was acquired by Logitech in November 2007, he became senior manager of logistics for the Americas. Where once he was the primary logistics manager for a start-up venture, today he works with the integrated operations of a multinational corporation.

If he is unfazed by transitions and undaunted by dramatic shifts, it's because life in the Navy made him nothing if not seaworthy. "Every two to three years your assignments change and you do something new, so you learn how to learn. You know how to manage change," he explains.

A native Californian, Dickey attended the University of Southern California on an ROTC scholarship. He majored in industrial engineering, a discipline that introduced him to the finer points of systems and processes. After graduation and upon receiving his commission, he opted to serve in the Navy's Supply Corps, assuming that the resulting training would have private-sector applications. At the time, he recalls, "I was not looking to make the Navy a career."

That soon changed as the opportunities mounted and Dickey traveled the world, soaking up experiences and tackling complex logistics challenges. "I kept going to interesting places to pursue new and challenging assignments," he says.

His first assignment was aboard a small destroyer, where he was the lone supply officer responsible for ensuring not just that repair parts were on hand for all the equipment, but that the sailors were well fed and accurately paid, that supplies were adequately stocked, and that the ship's store never ran out of toothpaste, film, or razor blades. "It was a small ship, and I was a one-person show," he says.

His job was further complicated because the destroyer could not always take advantage of the Navy's supply infrastructure. "We operated independently because we were trailing Russian ships on intelligence missions," Dickey says, noting that the ship's course couldn't be charted in advance, making refueling and replenishing stops an adventure.

Dickey recalls one impromptu refueling stop in a Spanish port. Because the Navy had no established relationships with local suppliers, Dickey found himself traipsing across town with a briefcase full of cash to make "an ad hoc buy."

Subsequent assignments took him aboard larger ships and to far-flung naval bases. Eventually he was transferred to Hawaii, where he was put in charge of the logistics plans for the Pacific fleet.

Since joining the private sector, Don Dickey has done everything from building a supply chain for a startup company to overseeing manufacturing operations for a multinational corporation.

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Don Dickey's naval career encompassed a stint in the Supply Corps, overseeing the Pacific fleet in Hawaii, and running logistics operations for the naval carrier battle force during the 1991 Gulf War.

By then, he had accumulated 20 years of service and plenty of logistics know-how. One of his responsibilities was to formulate logistics plans to support various hypothetical scenarios: Suppose North Korea invaded South Korea, tensions escalated between Russia and Japan, or trouble boiled over in the Persian Gulf. How would the Navy respond, and how would the Supply Corps do its part?

As it happened, one of those scenarios came to fruition. "I was in Hawaii when Saddam Hussein invaded Kuwait," Dickey says, recalling the events that led to the 1991 Gulf War. Called upon to brief decision makers about the Supply Corps' preparedness, Dickey drew upon the work he'd done addressing the many "what-if" scenarios.

After reviewing his work, one admiral commented: "OK Dickey, I like your plan. Go and make it work."

LOGISTICS IN THE NAVY MEANS ANTICIPATING REPAIRS, STOCKING SHIPS, AND PROCURING EQUIPMENT. **LOGISTICS IN THE PRIVATE SECTOR** MEANS ANTICIPATING JIT DELIVERY REQUIREMENTS AND ADJUSTING TO MARKET DEMAND FLUCTUATIONS.

With that, Dickey was dispatched to the Persian Gulf to help run logistics operations for the naval carrier battle force. His assignment involved everything from coordinating refueling efforts to managing food, supply, and weapons deliveries. Because the Gulf War was conducted by a multinational coalition, he also needed to collaborate with the allied naval forces operating in the area.

Given the Navy's vast experience and capable infrastructure, these operations went off with minimal hitches. Surprisingly, the biggest headaches came with a canceled stamp and a U.S. postmark. No one, Dickey recalls, was prepared for the sacks and sacks of letters and packages addressed to 'Any Sailor, U.S. Navy.'

"Delivering those letters and packages became one of our major challenges because there was a great outpouring of support," Dickey says. "That was something we had not planned for ahead of time. Not only did we need to distribute the fan letters and packages equitably, we also needed to ensure timely delivery of the most important mail – letters from family and friends."

Several years later, the war won and all the mail long since delivered, Dickey began contemplating retirement and a business career. He knew he didn't want to be a consultant, and he knew he wanted a job that sent him to the corporate world's front lines.

His first opportunity came with the Covey Leadership Center, where he helped the firm refine its distribution network. A second job with data storage and security technology provider Iomega took him to Malaysia, where he jump-started the supply chain for a new manufacturing site. He landed that job in large part because of his Navy-acquired knowledge of Asian cultures. "My cross-cultural experience gained by living overseas made me an attractive candidate," he explains.

The biggest adjustment for Dickey, and for so many military personnel who transition into the private sector, was shifting from a maintenance to a manufacturing orientation. Logistics in the Navy means anticipating repairs, stocking ships, and procuring equipment. Logistics for a company such as Iomega means anticipating just-in-time delivery requirements and adjusting to market demand fluctuations.

The transition proved easier than Dickey anticipated, although he worried that his military experience might not match private-sector requirements. "After 25 years in the Navy, you worry that your experience won't translate," he says.

As it turns out, Dickey need not have worried.

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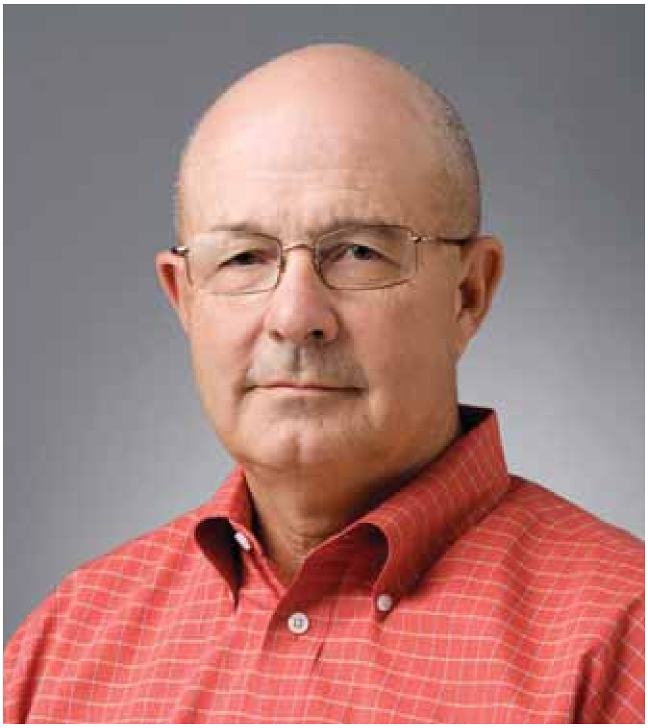
"There's a misperception – maybe it comes from reading *Beetle Bailey* comics – that members of the military are marionettes who just follow orders," LaBounty explains. "But the military always conducts candid self-examinations of everything its officers do."

Those constant reviews and evaluations led to cost-saving, efficiency-boosting revisions and made LaBounty a valuable leader once he embarked on a civilian-sector logistics career. But before he could be effective in the commercial world, he had to learn how to adapt his military-acquired knack for candid assessment to an environment where critical scrutiny was often mistaken for finger-pointing.

"When I came to the civilian side, I had to be careful because being candid was viewed as being blunt," he recalls. Fortunately, his gift for personal accountability helped him tweak his delivery and repackage his expertise for the private sector. For four years LaBounty served as senior vice president and director of supply chain management for JCPenney. He was also president of JCP Logistics LP, an operating subsidiary of JCPenney.

At JCPenney, the Dallas-based LaBounty was responsible for providing strategic and operational leadership for the logistics activities related to moving merchandise from suppliers to stores and from warehouses to catalog/Internet customers. He shouldered oversight responsibilities for a $1.2-billion pipeline operation that involved 21 distribution facilities throughout the United States.



SCRUTINY ON LABOUNTY. Jim LaBounty had to tone down his military-acquired talent for critical scrutiny when he joined the private sector. "Being candid was viewed as being blunt," he says.

Big as that job was, it was a comfortable fit for LaBounty, whose military experience taught him to greet the unexpected with equanimity. After all, his career began with an unexpected twist.

FROM JACK OF ALL TRADES TO CITIZEN SOLDIER

After earning a bachelor's degree from Illinois State University, LaBounty went to work for Caterpillar Tractor as a finance analyst. "In those days, finance analyst was another name for jack-of-all-trades," he says.

At the age of 25, and just 14 months after joining Caterpillar, LaBounty was drafted. The Vietnam War was at its zenith, and like so many draftees, he was reluctant to embark on a career detour. "It was my first big job, and I loved it. Caterpillar was expanding around the world, and it was an exciting company to work for," he says.

Originally, LaBounty planned to serve his tour, then return to the private sector. With that goal in mind, he tried to pursue military experience that would enhance his resume and perhaps lead to new career opportunities. "When I was drafted, they made me an infantryman, which is not quite a civilian career field," he says. "That drove me to logistics."

The Army sent him to Officer Candidate School, and before he knew it, LaBounty was savoring the opportunities

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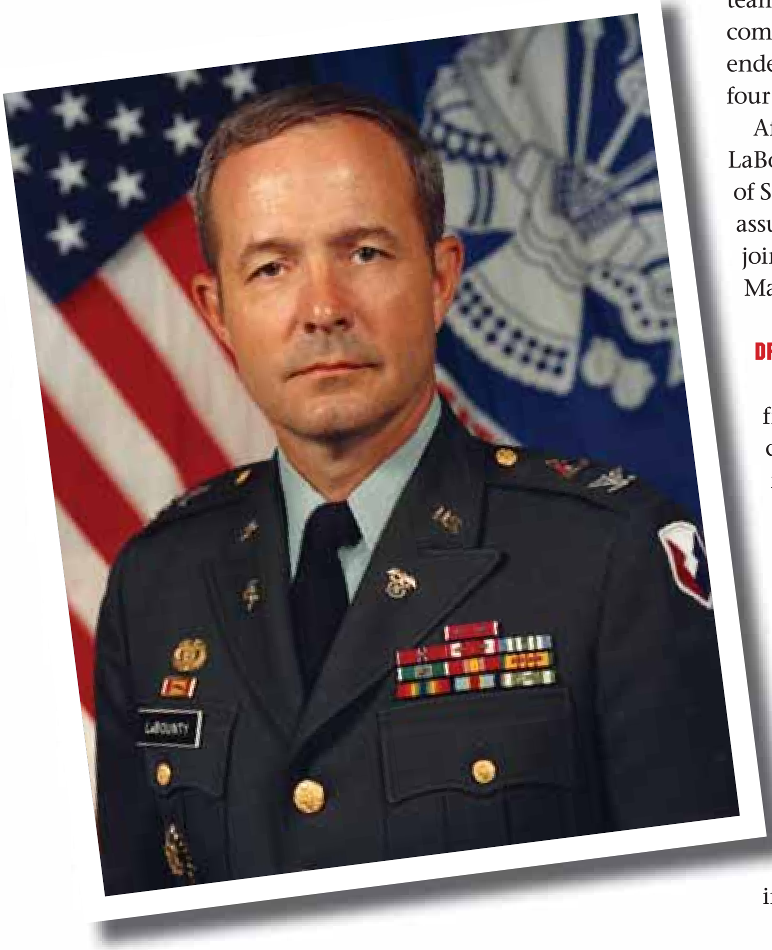
that military life presented. His many assignments included leading a Second Infantry Division battalion in Korea, a tour as chief of the Congressional Liaison Office of the U.S. Army Material Command, and four years in California as commander of the Defense Distribution Region West.

That assignment offered the best preparation for his stint with JCPenney. "I was running an army depot," LaBounty recalls, noting that a depot is military shorthand for a distribution center. His work at the depot coincided with a Department of Defense decision to put logistics for all four service branches under one command. LaBounty was charged with consolidating 15 of the operations and devising a single system to address the varying supply needs of each service.

When the DoD decided to put logistics for the four service branches under one command, it turned to LaBounty. With his leadership team, LaBounty structured integrated logistics systems that eliminated redundancies, boosted efficiencies, and cut costs.



The task fell somewhere north of Herculean and south of impossible. Imagine the challenges that dog a project of this size and scope: the clash of strong cultures; the need to work with people from different, not to mention rival, services; the frustration of evaluating legacy systems that had evolved over generations; the resistance that invariably greets a sweeping dictate from on high.

LaBounty's first order of business was to evaluate the existing systems. "Each service had built its own logistics system to serve what it thought were its branch's unique operations," he recalls. But LaBounty quickly realized that "unique" was a misnomer: logistics for one service shared much in common with logistics for the others.

In the end, LaBounty and his leadership team structured systems that eliminated redundancies and streamlined operations. Ultimately, they converted a cadre of skeptics into a team of believers. "The key was performance," he says. "We compared our metrics to their metrics, and in all cases we ended up performing better. We saved $325 million over four years."

After retiring from the Army as a colonel in 1995, LaBounty served as CEO and president of the United Way of San Joaquin County, Calif. He then moved to Dallas to assume a post with Electronic Data Systems. In 2001, he joined JCPenney, where he worked until his retirement in May 2008.

DRAWING ON EXPERIENCE

Throughout his private-sector tenure, LaBounty frequently drew on his long experience adapting to circumstances on the ground: "One key in military training is planning," he says. "You know you will deal with – and must plan for – the unexpected."

Just as important, he called upon his military background to help him negotiate changing scenarios. For example, when JCPenney faced some major challenges in modifying its corporate culture, LaBounty embraced the Army's tradition of in-the-trenches camaraderie, turning to ground-level employees for suggestions and advice.

"The Army holds the view that leaders take care of their people," LaBounty recalls. "The smart leaders learned that if you take care of your people, they will take care of your mission. When I took that strategy into the civilian world, it paid dividends."

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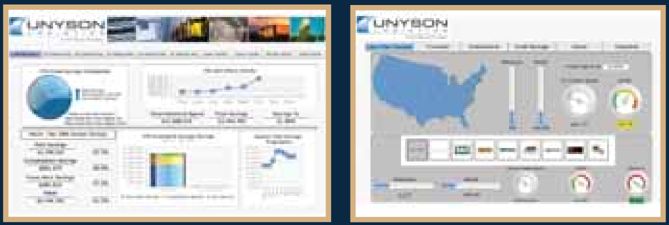

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TODD ROBBINS

TAPPING PRIVATE SECTOR RESOURCES

WHEN LT. COL. TODD ROBBINS RETIRED FROM THE U.S. ARMY IN 2007, HE DIDN'T SAY GOODBYE TO HIS LONG-TIME EMPLOYER. INSTEAD, HE TURNED AROUND AND SHOOK HANDS WITH HIS NEW PARTNER. That's because Robbins immediately took the position of executive vice president and chief operating officer for American United Logistics (AUL), whose corporate headquarters is located in the Kuwait Free Trade Zone. Among its many projects, AUL

Even though he retired from the Army, Todd Robbins continues to work with the military, helping it take advantage of American United Logistics' facilities, networks, and systems in Iraq.

SUPPORTING THE WARFIGHTER WHILE BUILDING A NATION

The efforts of third-party logistics companies (3PLs) and transportation service providers are making a substantial impact on socio-economic development in the southern region of Iraq. Not only are 3PLs and carriers rebuilding Iraq's local economy, stimulating economic growth, and putting Iraqis to work, they are also taking U.S. soldiers out of harm's way by removing them from Iraq's dangerous road networks.

After a visit to Iraq three years ago, American United Logistics (AUL) saw potential at the Port of Umm Qasr in South Port and established a four-million-square-foot secure facility there. This compound not only facilitates the movement of reconstruction cargo, but it opens an avenue for cargo moving in the Defense Transportation System to be staged, prepped for onward movement, and delivered to its final destination in Iraq.

"I looked at the area in South Port as a 'field of dreams,'" says Richard Raley, president of AUL. "We knew that with a lot of TLC and a huge capital investment, a facility in South Port would be a stakeholder in the development of the Port of Umm Qasr as well as a ray of hope for the local citizens." Today many of the port town's population of 46,000 are employed either directly or indirectly by the Port of Umm Qasr.

The U.S. maritime industry also sees the port's potential. American Cargo Transport, for example, now calls Umm Qasr with three U.S.-flag vessels. Liberty Global, APL, Maersk, ARC, and other ocean carriers also serve the port.

FROM FISHING TOWN TO LOGISTICS HUB

Umm Qasr is said to have been the site of Alexander the Great's landing in Mesopotamia in 325 B.C. While originally a small fishing town, Umm Qasr was sometimes used as a military port.

After the Iraqi Revolution of 1958, a naval base was established at Umm Qasr. The port was subsequently founded in 1961 by Iraqi ruler General Abdul-Karim Qassem. It was intended to serve as Iraq's only deep-water port, reducing the country's dependence on the disput-

operates a secure staging and warehousing facility at the port of Umm Qasr in Iraq (*see sidebar below*). In his new role in the commercial world, Robbins has been instrumental in helping the U.S. military take advantage of AUL's presence in the region, as well as its existing facilities, systems, and networks.

"There is a strategic partnership between the military and AUL," he explains. "They need us as much as we need them."

Robbins is both us and them. With one foot comfortable in a combat boot and the other groomed for dress shoes, he understands and respects both worlds. Just as important, he has the interests of both at heart.

A Pennsylvania native, Robbins attended The Citadel on a football scholarship. After graduating, he received a direct commission as a second lieutenant in 1986 and was sent to the Transportation Officers' Basic and Airborne School. In subsequent years, he was assigned to various transportation companies and commands in the United States. During Operations Desert Shield and Desert Storm, he served as a terminal operations officer, supporting the Army's efforts and learning about the complexities of mobilizing for unexpected events.

While assigned to the U.S. Transportation Command, Strategy, Plans, Policy, and Programs Directorate, Robbins helped plan and implement the Marine Security Program (MSP), which maintains a modern U.S.-flag fleet that provides the military access not only to vessels but also to a global intermodal transportation network. The network includes logistics management services, infrastructure, terminal facilities, and U.S. citizen merchant mariners. Robbins' work with the MSP helped him understand how the military and commercial sectors intersect and integrate.

Robbins' logistics expertise was further developed when, in 1999, he commanded the 955th Transportation Company during the drawdown of all U.S. forces on the Isthmus of Panama. He finished his Army service as commander of the

ed Shatt al-Arab waterway that marks the border with Iran.

The port facilities were built by a consortium of companies from West Germany, Sweden, and Lebanon, and a railway line connects it to Basra and Baghdad.

Just about every logistician responsible for streamlining some of Iraq's archaic "brute force" logistics processes has toured the Port of Umm Qasr-South Port. It serves as a model for streamlining logistics processes and creating efficiencies while using Iraqi labor, trucks, infrastructure, goods, and services.

For years, the United States Transportation Command looked for ways to take advantage of the unparalleled capacities and capabilities offered by the U.S. commercial maritime industry and its service providers.

AUL's compound on the South Port of Umm Qasr provides that advantage. It offers U.S. maritime companies, the Department of Defense (DoD), coalition forces, and reconstruction companies a "one-stop shop" for the shipment of cargo through Umm Qasr to its final destination in Iraq.

AUL's facility provides 341,000 square feet of covered staging area, 1.6 million square feet of hard stand staging area, 2.15 million square feet of compact staging area, access to the Iraqi Railroad, a DoD RFID interrogator, and a dining facility. There is also dedicated berthing at one of South Port's eight berths to assist with the rapid loading and offloading of U.S-flag vessels.

ENSURING SAFE CARGO DELIVERIES

Port throughput and transportation assets are key to Umm Qasr's success. Through a partnership with Armor Group International, a registered private security provider in Iraq, and the Logistics Movement Coordination Center, the facility provides 16 dedicated private convoy security escort teams to ensure the safe delivery of cargo to its final destination.

Direct shipments into Umm Qasr are taking U.S. soldiers off Iraq's dangerous roads. The 600 to 800 shipments per week that are currently being delivered door-to-door by AUL for the Surface Deployment and Distribution Command used to move into Iraq through Kuwait. The change results in U.S. military security teams escorting 300 to 400 fewer U.S. trucks on the roads in Iraq each week.

Three years ago, a 3PL executive saw the potential of Umm Qasr. Today, the area has produced more than just commercial opportunities. "We are making a difference for our fighting men and women in uniform, as well as for the DoD civilians and contractors," says Todd Robbins, AUL's executive vice president and COO.

"We are proud of what we have built, but more importantly how it is directly impacting the delivery of cargo for the Department of Defense and for Iraqi foreign military sales," says Raley.

While U.S. forces serving in Iraq have had to overcome many hurdles to get to where they are today, a brighter path for the future is emerging, both in terms of commercial opportunities and the ability to provide the Department of Defense with a viable facility in Umm Qasr-South Port.

840th Transportation Battalion in Balad, Iraq. It was there that he became acquainted with AUL.

His final command ranged from assisting units with deployment and redeployment requirements to developing strategies to maximize the efficiencies and capacities of the U.S.-flag maritime companies and their logistics providers. He also was responsible for complying with the regulations associated with U.S. oversight of military materials.

In Balad, he contracted with a number of private-sector companies to handle various aspects of the complicated logistics operation – one that left little room for error because it was, ultimately, about ensuring the safety and preparedness of the troops in the trenches. "The end customer is the soldier who is waiting for a widget – whether that widget is a part for a weapon or a bottle of Gatorade," he says.

THE BUDDY SYSTEM. **While he enjoys tackling the challenges of the private sector, Todd Robbins (*far right*) admits he misses the camaraderie he shared with fellow soliders during his U.S. Army career.**

In Balad, Robbins became acutely aware of the efficiencies associated with commercial logistics operations. "The defense transportation system is very effective," he explains, "but how do you apply commercial best practices to an 'archaic' military system? The commercial world is able to adapt quickly to changes in technology, but it takes the U.S. government a lot longer."

The possibility of addressing that question made AUL an interesting option for Robbins. He joined the company, in part, to help it convince military decision-makers that utilizing the Umm Qasr port made economic and strategic sense. "It was my job to go out and preach," he says. His message: Take advantage of private-sector expertise and resources, especially those provided by U.S. maritime companies.

Robbins' military experience gave him plenty of credibility, and his arguments – "increased velocity, better in-transit visibility; all the buzzwords" – made perfect sense. Before utilizing AUL's Umm Qasr facilities, the Army ferried in materials and equipment from Kuwait. That meant one long truck convoy from the Kuwaiti ports and warehouses to the Iraq border. At the border, the convoy changed hands and security increased. It was a time-consuming and expensive solution. Routing operations through Umm Qasr meant the military could reduce the number of trucks it deployed while reallocating troops to other duties.

During his first year with AUL, Robbins spent as much as three-quarters of his time in Iraq. "That was just to get things rolling," he explains, noting that one of his responsibilities was to help the firm comply with military regulations, such as registering convoys to move through battle zones.

Today, Robbins lives in St. Louis, near Scott Air Force Base, where the U.S. Transportation Command is headquartered and where he is best able to partner with planners. "This is where the decisions are made," he says, adding that he still travels frequently to the Middle East to oversee AUL's work in Iraq, Jordan, and Kuwait.

> "HOW DO YOU APPLY COMMERCIAL BEST PRACTICES TO AN 'ARCHAIC' MILITARY SYSTEM? **THE COMMERCIAL WORLD IS ABLE TO ADAPT QUICKLY** TO CHANGES IN TECHNOLOGY, BUT IT TAKES THE GOVERNMENT A LOT LONGER."

If Robbins' transition to the private sector was seamless, it was not without surprises. "I didn't realize how competitive companies are," he says. Now, he must factor in the actions of rival firms and devote considerable time to figuring out how to outperform them.

Nor did he realize how vastly company cultures vary. "Every company has its own nuances, and is uniquely operated and run," he explains. Coming from a strong military culture that changes little from post to post, command to command, that intrigued him.

While he enjoys the challenges of the commercial world, Robbins does miss the esprit de corps that characterized his service. "I miss the camaraderie," he says. ■

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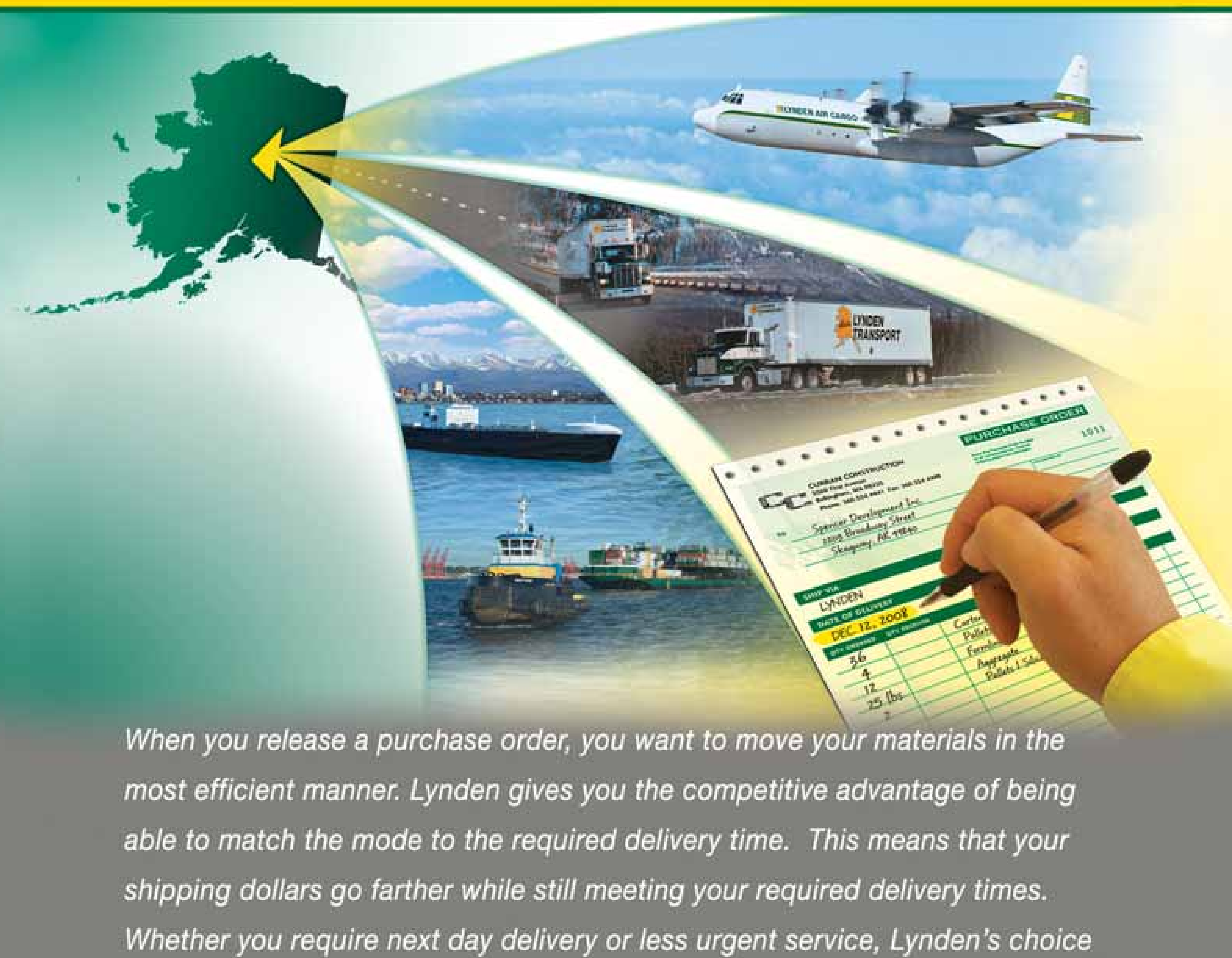

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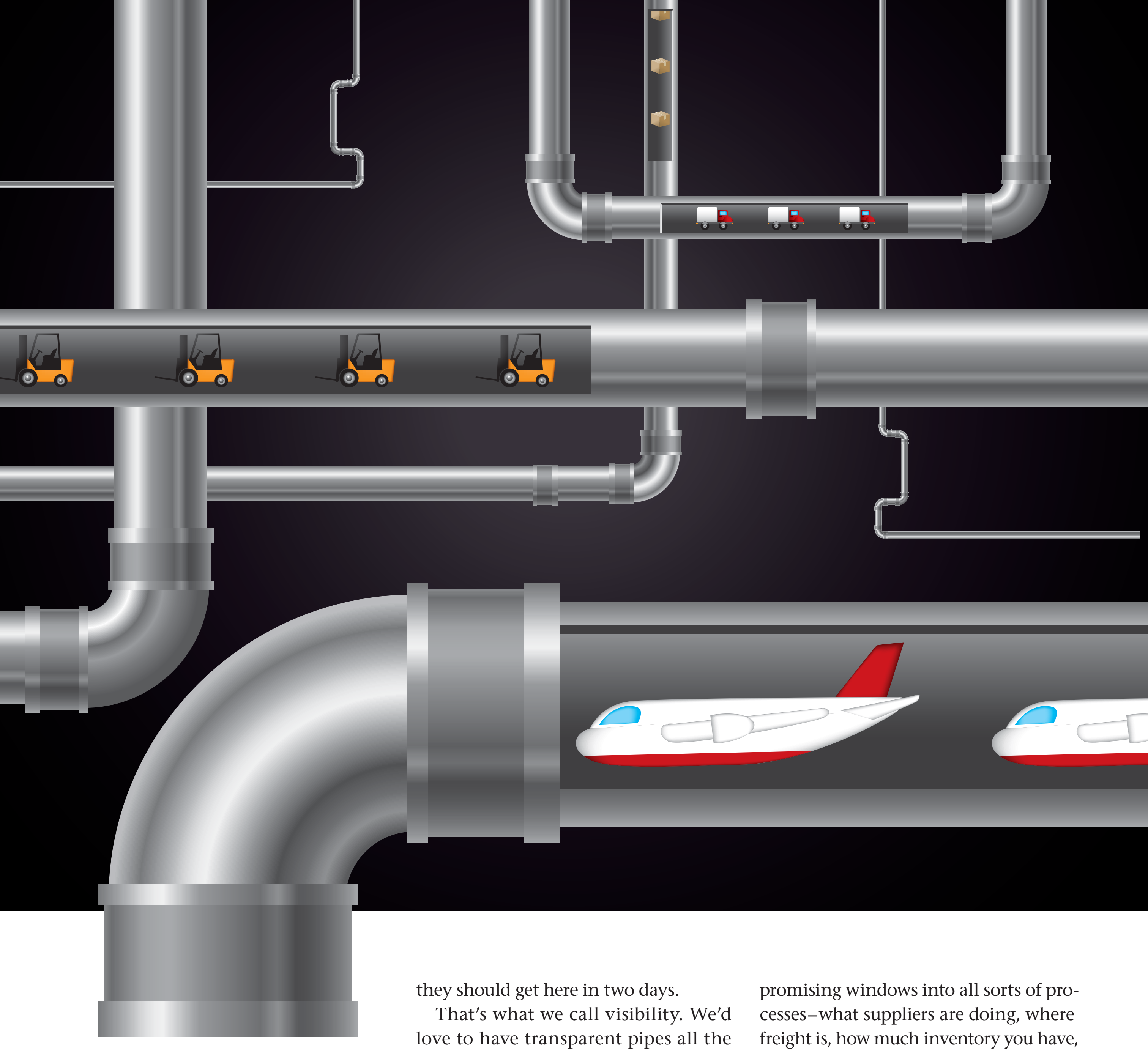
SUPPLY CHAIN VISIBILITY:

Now You See It

The more transparent the supply chain, the more easily you can spot ways to squeeze value from your operational data.

BY MERRILL DOUGLAS



Think of the supply chain as a pipeline. You turn the spigot, hard or soft depending on demand. Product flows through a network of pipes, all converging in one conduit that delivers the goods that you and your customers need.

Now, say those pipes are made of glass and you can watch the supply chain move. Is the flow a little sluggish? See that highway construction blocking the way? That explains it.

Will those widgets from Shenzhen arrive on time? Look, they just cleared customs and entered the main pipe; they should get here in two days.

That's what we call visibility. We'd love to have transparent pipes all the way through the supply chain, from where the supplier's source is revving up production, right down to the distribution center and out to the customer's door. The more we see, the more we know, and the better we can apply that knowledge to speed the flow.

Visibility opens a window to what goes on between the start and end of a process. "It's understanding what is happening at each point within that process, from sub-process to sub-process," says Brad Wyland, senior research analyst, supply chain execution at Aberdeen Group, Boston.

The logistics IT market offers more technology tools than anyone can count, promising windows into all sorts of processes–what suppliers are doing, where freight is, how much inventory you have, and what customers want. Companies use this information in some obvious ways: to better match incoming supply to customer demand, identify and solve transportation delays, shrink inventory, cut cycle times, provide better service to customers, and save money.

A transparent supply pipeline offers many other advantages as well, including a few that are less obvious.

INSIGHT:
Data Analysis

Visibility can give companies better leverage when dealing with suppliers. By aggregating and analyzing data from several visibility systems, for example,

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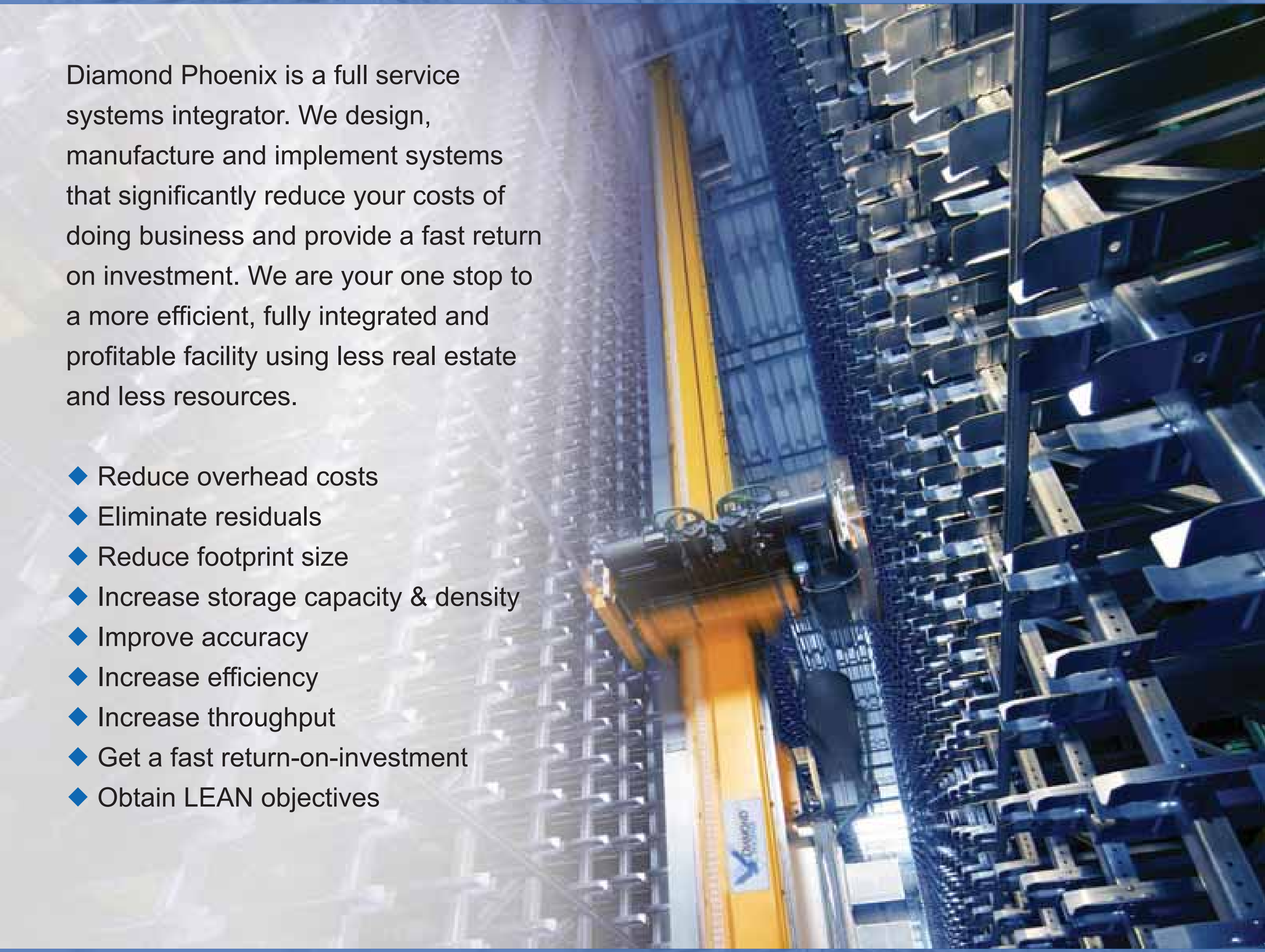

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some companies create metrics for evaluating vendors.

"Shippers can view appointments in their transportation management system and arrival dates in their yard management system, and compare that data to information in their warehouse management system," says Erik Huddleston, chief technology officer at Inovis, an Alpharetta, Ga., firm that provides solutions to support collaboration among supply chain partners (*see sidebar, right*).

From this data, companies get the hard facts on shipping costs and delivery performance, arming them with ammunition for negotiating with vendors.

Keeping Vendors on Their Toes

Such data also helps shippers decide which under-performing vendors they should pressure to improve, and which ones aren't worth the trouble because they don't affect the overall operation.

"Organizations are cutting back significantly on vendor management staffing," Huddleston says. Judicious use of supply chain data helps them decide how best to deploy the managers who remain.

Another way companies conserve resources is by getting vendors and customers to take on more work. Visibility helps there as well. Instead of paying employees to track inbound orders and contact suppliers when something goes wrong, shippers give vendors a portal where they can track their activities, making them responsible for spotting and fixing their own problems.

Visibility can also reduce work for customer service staff. "Many shippers have given their customers access to visibility portals that have traditionally been internal," Huddleston says.

INSIGHT:
Labor Management

Besides shifting some of their work to trading partners, companies with windows into the supply pipeline can better schedule labor in their own facilities. Companies with current visibility into inbound and outbound shipments use that information, rather than stale historical data, to schedule work crews in their distribution centers, reports a July 2008 study published by Aberdeen

Inviting You To A Visibility Vortex

Visibility manifests itself in countless ways—from straightforward real-time shipment information to historical and actionable data that flows across logistics disciplines. Increasingly, businesses are exploring innovative ways to drive greater transparency in their supply chains. Take the emerging popularity of social networking sites.

If you've been sucked into one of these virtual vacuums, perhaps you've considered its potential within an enterprise—for example, an intuitive interface that enables business contacts to serve up function-specific profiles, communicate mutually inclusive data, and post relevant status alerts, feeds, and photos to pre-screened supply chain friends. No more batch emails canvassing for the right contact, or "cold calls" to an overstuffed voice-mail box.

Or maybe you've marveled at the possibility of a robust database chock-full of supply chain contacts—an infinite Rolodex of soon-to-be friends that intuitively spins introductions the moment you acquire a new business, install a new transportation management system, or plug in a new vendor.

As is often the case with cutting-edge technology, what is imagined already exists.

A select number of retailers and suppliers, such as Big Lots, Macy's, and Tommy Hilfiger, have been beta-testing a social networking platform pioneered by Inovis, an Alpharetta, Ga.-based IT solutions provider.

Integration and communication challenges abound when companies add new technologies, business processes, or partners to their supply chain networks. Inovis found this out the hard way as customers began relying on its solutions to synchronize trading partner databases.

"It is very difficult to get the right partner contacts by email or phone, especially when they can number in the hundreds or thousands," says Erik Huddleston, CTO for Inovis. "Working with customers shifted this burden to us. We learned their pain firsthand."

Trading partner databases often lack a strong technology that integrates social roles on top of data flows–essentially connecting people with information. While several solutions on the market synchronize data, these applications overlook the human roles that make these processes work. This omission created a visibility demand now supported by the Inovis Social Network, a fully integrated component of the developer's Community Management module.

SOCIAL COMPLIANCE

Columbus, Ohio-based overstock merchandiser Big Lots found itself drawn to the Inovis Social Network as it began rethinking its strategy for managing vendors. "When we initiated a vendor compliance program, we emailed our inbound routing guide and used Excel as a reporting tool to track information," says Katy Keane, vice president of transportation services for Big Lots. "That process was paper- and labor-intensive."

Big Lots recognized it needed a solution for automating and managing vendor compliance. It began using Inovis' Deduction Management and Scorecard modules to ensure it had accurate vendor compliance contacts and to collect and disseminate appropriate data to these contacts.

Big Lots sends onboarding notices to all its vendors through Inovis' networking platform. Supplier contacts have a unique sign-in and can create a profile within the portal. These "friends" may include vendor compliance, sales, IT, EDI, accounts receivable, and logistics contacts.

Users have the flexibility to build out their contact profiles per unique specifications, then update as necessary. Profile information can include a supplier's advanced shipment notice capabilities, which enables customers and consignees to leverage rich line-item shipment information. Or vendors can feature information about IT readiness, lead-time requirements, ship-to locations, and business process capabilities such as 24/7 support for inbound shipments.

Companies such as Big Lots can similarly dictate the type of information it pushes out to vendors. "Within this database, we keep vendors up to date on company activities," adds Keane. "We advise them of holiday hours, corporate updates, and DC shutdowns."

By building out these profiles within and beyond the enterprise, businesses can share macro information with all partners or introduce explicit business process instructions to filtered contacts, matching decision support with appropriate functional roles.

"It provides an immediate tool to send information directly to the right vendor contacts," says Keane.

COMPRESSING TIME, EXPANDING FLEXIBILITY

The strategy behind this new networking protocol is to cross-pollinate organizations using traditional partners and trading profiles that Inovis has captured to enrich and empower customers. By sharing data and driving visibility across the supply chain, companies can push people to need, and need to people, based on that traditional relationship.

Aside from the practicality of linking the right information and contacts, Huddleston sees considerable strategic advantages as businesses saturate their databases.

"The network greatly enhances execution time for new business processes, new vendor/item introductions, and new sourcing protocol," he says.

"Flexibility is ultimately dictated by the ability and expediency with which businesses can connect to new trading partners," Huddleston adds. "With all supply chain partners at your fingertips, this connectivity reduces total cycle times associated with new supplier engagements, from getting legal agreement sign-offs to new product labels. It can compress total elapsed time by 20 percent."

Beyond ensuring faster introductions, the Inovis Social Network greatly amplifies responsiveness to supply chain exceptions, routing need-to-know information and alerts to contacts that can immediately initiate resolutions.

Within its vendor compliance program, Big Lots has already been able to leverage this real-time visibility to identify and thwart potential problems. "We recently had an issue with one of our key replenishment vendors, our 'never-outs,'" shares Keane. "We had a spate of chargebacks concerning the palletization of a core product at each of our five DCs."

Big Lots' vendor compliance personnel saw the daily charges, recognized the anomaly, went into the database, contacted the vendor, and informed it of the chargebacks.

"With our new system we can attach photos to these alerts, along with comments and additional load and SKU information," she adds.

With a network touting more than 20,000 organizations across extended vertical industries, including high-tech and apparel, Inovis allows users to opt in and build out that extended social network so it becomes a source for seeding information. This is the type of networking potential that already exists among mainstream social gathering portals, and one that Inovis perceives canvassing the supply chain, inwardly and out, as well.

As Inovis continues to pollinate customer databases, keeping information up to date, cross-organization synergies will drive freshness and accuracy. This robustness has companies such as Big Lots enthusiastic about the system's potential.

Big Lots uses the Inovis Social Network within its vendor compliance program to identify and communicate potential problems to appropriate supply chain contacts.

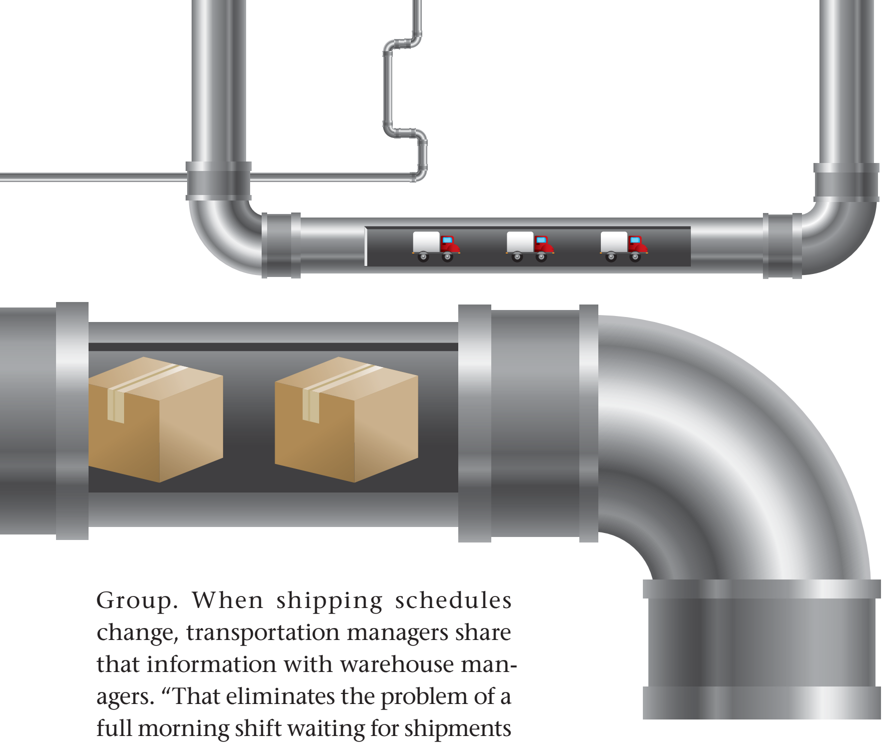
"When Inovis adds enough partners to the system, we hope it will manage the database on a subscription basis," Keane says. "If they build it out with profiles of more companies, and keep vendor and retailer information up to date, we would be able to seamlessly plug in new partners."

Executing this social networking model facilitates passive information exchange, which, in turn, enables proaction.

"It gives companies answers before they have questions. Imagine how that translates to added value. They can start making strategic decisions proactively," Huddleston says.

In terms of building better relationships with vendors, the social aspect is without parallel, notes Keane. "It enables partnership as opposed to punishment. The depth of interaction is key," she says. "The network offers two-way connectivity for sharing issues and ideas."

– Joseph O'Reilly



Group. When shipping schedules change, transportation managers share that information with warehouse managers. "That eliminates the problem of a full morning shift waiting for shipments that aren't coming in," says Wyland.

Going into Labor

DSC Logistics uses supply chain visibility in a different way to manage labor. The third-party logistics provider (3PL), based in Des Plaines, Ill., has integrated its warehouse management system (WMS) with a labor management tool from RedPrairie, Waukesha, Wisc.

Each time an employee scans a bar code, the WMS reports that action, with a time stamp, to the labor management system. This tells the system how long the employee takes to perform a given task. The system compares that time to an established benchmark for that task, determining whether the worker's productivity hits above the standard, right on target, or below it.

"If we determine that it should take employees 90 minutes to pick an order, and they get it done in exactly that time, they're hitting 100-percent productivity," says Greg Goluska, DSC's chief information officer.

Workers who repeatedly fall short of the standard receive coaching and, if they don't improve, are disciplined. Employees who surpass expectations may receive incentive pay.

Tracking worker activity also helps DSC spot opportunities to improve facility layouts. "If a certain type of order consistently takes 90 minutes or two hours to pick, we can reconfigure the warehouse to cut workers' travel time," Goluska explains.

> "A good inventory policy states the threshold for any class of inventory. Visibility tools then help monitor when inventory crosses that threshold."
>
> –**Anne Patterson,**
> vice president of client delivery, FreeFlow

DSC implemented its labor management tool to help it work more efficiently for its clients. Companies that operate their own warehouses can take similar steps on their own behalf.

INSIGHT:
Greener Routing

At Stonyfield Farm in Londonderry, N.H., a transparent supply pipeline reveals new opportunities to ease the organic yogurt maker's environmental impact.

Stonyfield relies on a visibility tool provided by Miami-based 3PL Ryder Supply Chain Solutions, which handles its freight bill audits and payments, manages its carriers, and provides some of its transportation through a dedicated fleet. Since late 2006, Stonyfield has used the tool to study where its freight goes, how it gets there, and how much it costs. This knowledge is helping Stonyfield cut transportation expenditures and shrink its carbon footprint by overhauling its outbound network to save fuel.

"By reviewing six months of the tool's data, we realized a significant opportunity in consolidating our less-than-truckload (LTL) network into our truckload network," says Ryan Boccelli, Stonyfield's director of logistics.

Although carriers prefer one-stop hauls, company officials explained that they would burn less fuel if they designed runs that include multiple stops. So, for example, one of Stonyfield's carriers now takes a full truckload on a 10-stop run from Londonderry to the Northwest.

"Rather than shipping to an initial pool point somewhere in the Midwest, then to an additional pool point, the carrier stops at a DC in Las Vegas or Cheyenne, Wyo., then heads up to Seattle," Boccelli says. To sweeten the deal, Stonyfield also gives that carrier a few single-stop loads.

Data Visibility the Smart Way

Stonyfield and Ryder both belong to the U.S. Environmental Protection Agency's SmartWay Transport Partnership, a consortium of shippers, carriers, logistics companies, and truck stops working to reduce transportation costs and save energy. Ryder exports data about Stonyfield's shipping activities from its visibility tool directly into the SmartWay Freight Logistics Environmental and Energy Tracking (FLEET) Performance Model. The EPA uses FLEET to measure the actions companies are taking to save fuel and cut carbon emissions.

Using data on freight operations to refine its routes has paid off in progress toward both of Stonyfield's goals. "From 2006 to 2007, we cut net freight costs by eight percent and our carbon footprint by 40 percent," Boccelli says.

The results for 2008 aren't in yet, but Stonyfield continues to peer into its pipeline and find further opportunities to modify its routes, especially as it adds new customers.

Besides using historical data to make strategic changes to their routes, shippers can also use recent operational data to make money-saving transportation changes in the near term. "Information from last month or last week is great, but if shippers have information available immediately, they can be proactive and work more collaboratively with their carriers," says Wyland.

Take a company that typically trucks goods from the West Coast to an East Coast port, then puts them on a container ship. "A shipper could get a better deal next month because one of its carriers also has an intermodal capacity issue," Wyland says. "The shipper could move product via rail instead of truck for the next month and cut transport costs by 50 percent."

INSIGHT: Inventory

Along with visibility into freight movements, a view into inventory status can help shippers boost the bottom line.

"A good inventory policy states the threshold for any class of inventory," says Anne Patterson, vice president of client delivery at FreeFlow, which helps companies dispose of goods they can no longer use. "Visibility tools help monitor when inventory crosses that threshold."

A sound policy also spells out what action to take when a company identifies at-risk inventory–when a product line becomes obsolete, for example, or when a manufacturer is carrying too much of a certain component. Among other services, FreeFlow operates a variety of online auctions. An action plan might dictate using a specific auction based on factors such as the type of inventory a company needs to sell–such as finished goods or components–and the inventory's status–unused but obsolete, returned to be sold as-is, or returned and refurbished.

Along with a plan, a company needs visibility and a series of rules to trigger action. To gain visibility, FreeFlow's customers transmit data from their enterprise resource planning systems into decision support systems, which they configure to reflect their inventory policies.

"Many companies have the notion that dealing with at-risk inventory comes up maybe once a quarter," Patterson says. "Then it becomes a fire drill, and they've already lost a percentage of profits to price erosion."

With the right visibility decision support tools and proper discipline, companies can dispose of at-risk inventory after quickly reviewing the data once a month. That allows them to recover more of the products' value.

Whether they're peering into inventory levels, following goods along their transportation routes, watching over employees, or composing pictures of vendor performance, shippers stand to gain from making their supply pipelines transparent. What you don't see can hurt you, and what you do see can help a great deal. To the smart supply chain executive, that's clear as glass. ■

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SNAPSHOT

ENTERTAINMENT LOGISTICS

[OVERVIEW] The Hits Keep Coming

In the entertainment industry the show must go on, despite heart-stopping supply chain challenges.

BY LISA TERRY

Kelly Clarkson's first album sold four million copies. Her second exploded with 12 million. The third moved an anemic two million. Then four songs for her fourth album were stolen pre-release, and circulated by a hacker who penetrated her co-writer's Web site.

For a musician that may be show business, but for a supply chain professional, it's a business wrought with peril. In entertainment, every title is treated like a new product; sales history often does little to inform projections. And the risk of piracy is ever-present, diluting potential sales. Just ask Kelly Clarkson.

Whether the product is a movie, music, video game, or computer software, the issues facing the entertainment supply chain are common: short production windows, hard-to-forecast sales, high street-value products, and the looming specter of digital distribution promising to change it all.

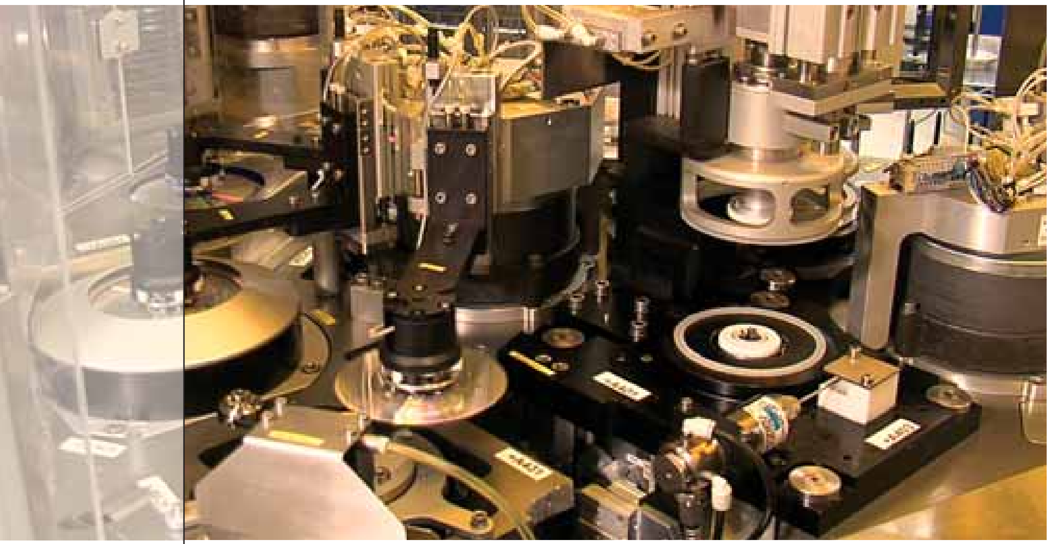
Here we raise the curtain on some top issues challenging the entertainment supply chain.

[HOT TOPICS] That's Entertainment

Zero-Day Manufacturing

The entertainment supply chain is all about the last minute. The pressure to work on a movie, software title, game, or music release until it's just right means artists and developers push right up to the release deadline–and often past it. It is not uncommon for a new title to simultaneously undergo manufacturing and fulfillment to meet street dates. By necessity, the manufacturing and supply chain built around entertainment products is designed to accommodate delays.

"The entertainment supply chain operates at 75 percent of full capacity, which creates the flexibility to receive and master content, replicate it, then package and ship the same day," says Greg Schoener, vice president of technology and quality at The ADS Group, a Plymouth, Minn.-based replicator of DVDs, CDs, USB drives, videotapes, and audiocassettes.



WHAT PRICE PERFECTION? Replicating hot CD and DVD titles often happens on or near the release date as artists take every last second to perfect their work. Those incredibly tight delivery deadlines put tremendous stress on the entertainment supply chain.

"Those tight fulfillment deadlines are mixed with products requiring seven- to 10-day turnaround times," he adds.

These collapsed production schedules deter entertainment companies from turning to third-party logistics providers. Much of the mastering and replication process still takes place in North America, and parcel shipments predominate due to the tight deadlines and short runs. Entertainment titles are produced and distributed through a complex mix of licensing deals and sales terms, from outright purchases to consignment arrangements.

The entertainment industry continues to consolidate, thanks to an over-capacity of replication facilities in North America. A handful of replicators serve the major players in each format. Some entertainment companies, such as Sony Corporation of America, based in New York, are vertically integrated – owning everything from the label through to distribution, including licenses or cross-licenses for the formats (DVD, CD, Blu-ray) themselves. Replicators are expected to pay royalties to the license holders for every disc they create.

Each new title requires forecasting the volume of initial and subsequent sales, and developing a strategy for managing disc replication and packaging services.

"We could not launch so many products successfully without the ability to integrate the manufacturing and fulfillment/distribution functions

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Whenever the entertainment industry adopts a new format, such as Sony's Blu-ray DVDs, retailers must forecast consumer acceptance while still carrying older products such as standard DVDs.

within a single facility," notes Ron Vangrov, chief operating officer for replicator JVC America, Wayne, N.J. "Visibility to store-level demand is fed directly into the production planning process to ensure we allocate the necessary resources."

Format Changes Format changes are a fact of life in the entertainment industry. The latest example: Sony's Blu-ray, which won the current DVD format war in January 2008.

"Replicators now have to invest in Blu-ray manufacturing lines," says Alison Casey, head of global content at Futuresource Consulting, a UK-based research firm tracking the video, music, and games supply chain. "And they must make this investment at a time when the market for home video has flattened, and consumers are less likely to upgrade their technology."

Each time the industry adopts a new format, the supply chain must accurately forecast the pace of consumer acceptance and produce accordingly.

"In the interim, entertainment companies are forced to carry two types of inventory in steadily changing volumes," says Dave Berry, director of logistics for Movie Gallery Inc., a video rental company and gaming store based in Wilsonville, Ore.

Fuel Costs Fluctuating fuel costs impact entertainment software in two ways: how products are made and how they move.

Most products include three different types of plastic, as

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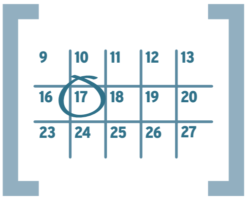
well as cardboard. “The cost and availability of polycarbonate (the strong plastic used to manufacture CDs and DVDs) has always been an issue,” says Schoener. “High gas prices track closely to polycarbonate prices.”

It’s difficult to pass raw material increases on to the consumer, he says, resulting in tighter margins and industry consolidation.

On the transportation side, shippers are cutting back on expedited shipping and consolidating carriers to contain costs. For example, Koch Entertainment Group, an independent music distributor in Port Washington, N.Y., leveraged its high volumes to consolidate carriers, cut the use of next-day air from 20 percent to four percent of orders, and shifted more international shipments from air freight to ocean. Koch says its customers will trade longer delivery times for lower costs.



Tight Delivery Windows

A key part of marketing a new entertainment title involves stirring up anticipation for its release. Distributors work closely with carriers to stage shipments to meet narrow delivery windows.

“This business is very time-sensitive,” notes Philip Wulff, senior vice president of logistics at Koch Entertainment Group. “New releases are typically scheduled to hit retail shelves on Tuesday. You want the product at the store just in time so the retailer can’t put it out too early. But it can’t get there too late or you miss out on initial sales.”

To achieve that balance, Koch built an in-house shipping matrix based on delivery times: first delivering to the West Coast, then to retail warehouses, and finally to independents.

“We constantly fine-tune

[CASE STUDY]

Taking a Cue From Customers

A software marketer turns to a 3PL co-star to help it manufacture software titles within narrow delivery windows as well as tackle inventory management and sales forecasting.

Just because consumers bought packaged anti-virus software in a big way in 2008 doesn’t mean they’ll buy in the same volumes in 2009. Forecasting sales is “a dartboard game,” says Paula Hoisve, director of operations for Microgistix, a Minneapolis software marketer. “We’ve gotten better at it because we’ve had to.”

Microgistix licenses software titles under strict contracts with publishers, then creates assortments of value-priced software for retailers such as Best Buy and Hastings Entertainment. These retailers often require custom graphics and assortments. Doing the job right means staying on top of trends; many consumers have shifted to downloads and software-as-a-service, for example, requiring Microgistix to constantly fine-tune its assortments.

These days, retailers are waiting longer to replenish inventory, putting increased pressure on Microgistix to order and deliver. To cope, the company relies heavily on The ADS Group, a second-tier replicator of DVDs, CDs, USB drives, videotapes, and audiocassettes, to not only manufacture its titles in tight time frames, but also to manage its inventory.

Customers increasingly are moving to a consignment model, further complicating Microgistix’s ability to manage inventory, including returns. A portal into ADS’ internal systems enables inventory visibility. “The visibility helped us allocate labor resources more efficiently and create more accurate forecasts,” says Hoisve.

Microgistix receives daily sales data from customers. The information feeds a home-grown inventory management and forecasting application that identifies trends in four-week segments. “Customers are running tighter supply chains, so we have to as well,” says Hoisve.

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the matrix; if FedEx or UPS improves their delivery time, we have to adjust the system," shipping later to avoid delivery too early.

The need to rush goods to meet street dates "puts a lot of stress on logistics infrastructure," says Jeff Strobel, senior account manager at Duplium Corporation, a Carrollton, Texas-based replicator and distributor. "Sometimes it's not humanly possible to meet a deadline. When that happens, manufacturing gets the blame."

Going Green Inefficiencies in entertainment distribution have driven up costs. For example, one distribution company could be shipping two half-empty cartons to the same retailer, each containing DVDs from different studios.

"In a sector that is controlled by vendor-managed inventory, and expects daily stock replenishment, this distribution approach is highly inefficient," says Casey.

To drive out such inefficiencies Walmart, which represents more than one-third of the U.S. home video market, is focusing heavily on sustainability and ecological issues. Other companies are bringing together different categories of entertainment product.

"Until recently, there have been separate supply chains for different entertainment products," says Casey. "No content company today plays in the music, video, and games space, except Sony."

On the packaging side, efforts are underway to use less plastic, slimmer packages, more post-consumer paper, and stacked – rather than separately packaged – discs within a jewel case. It's a balancing act, however, because materials and transportation savings can be lost to increased production time and cost.

Changing Tastes/ Changing Distribution

Billboard magazine's Top 100 list is celebrating its 50th anniversary. But its cachet has been diluted by a diversification of musical tastes; *Billboard* now maintains dozens of charts across a wide range of musical genres – from Hot Adult R&B to Latin Tropical.

The impact on distribution includes proliferating SKUs and smaller order volumes for any one title. Also driving smaller orders is increased demand for direct-to-store and direct-to-consumer delivery.

These changes require companies distributing product to retool their operations to handle everything from pallet-sized orders for big warehouse deliveries to each-pick and parcel shipping.

"The entertainment supply chain now handles many more SKUs, in much smaller production runs," says Strobel. "That drives up the cost of goods and shrinks margins."

Standardization has helped supply chain managers automate some handling processes. Video games and movies, for example, are packaged in a standard 15mm DVD case. But the emergence of interactive video games such as *Guitar Hero* and *Rock Band*, which require additional hardware, have complicated matters.

"We must adjust and build new facilities and processes to handle electronic components and large, bulk products," explains JVC's Vangrov. "This includes managing the supply and transportation of gaming devices from Asia; as well as the storage, materials handling, assembly, and distribution of large box products."

Security Those who missed the animated movie *Flushed Away* when it was released in

Getting the Game to the Gamers

Confronted with the challenge of helping a customer launch a top-selling, device-interactive product spanning all game platforms, JVC America jumped right in and took control.

When a leading video game manufacturer approached JVC America for help in launching a device-interactive product spanning all game platforms, the provider of global supply chain management and fulfillment solutions, optical media replication, and multimedia packaging was up for the challenge.

The initial goal was to jointly develop a new inbound logistics plan to cost effectively transport the gaming devices from their manufacturing plant in China to JVC's fulfillment facility in Kennesaw, Ga. The plan needed to account for possible manufacturing delays in China, unsettled West Coast dock union contracts, and unpredictable weather that could impact ocean transport.

JVC also had to confront the physical challenges of unloading, storage, and materials handling, given the product's large size and weight. And, the company had to develop an outbound logistics plan that could ramp up quickly and support 200-plus daily truckloads headed to retailer DCs, as well as thousands of daily small parcel shipments to fill direct-to-store and e-commerce orders.

Starting Early

Discussions and planning began nearly one year before the product launch, and both companies concluded that a dedicated facility was required.

In addition to the necessary square footage to accommodate storage, assembly, and outbound staging, the dedicated facility needed a cross-dock design with adequate dock door and truck court capacity to handle the anticipated high launch volume.

JVC and its customer shared concerns about the product's long-term viability. They also recognized that the facility requirements needed to support the product launch would greatly exceed ongoing replenishment needs. Because the companies did not want to be overly burdened with fixed overhead, the challenge was to quickly find a suitable facility with lease flexibility.

Thanks to a real estate buyer's market, JVC was able to locate a 542,000-square-foot spec facility in Douglasville, Ga., that had been unoccupied for an extended time.

Because the manufacturing delivery schedule and retail forecast was still unknown, the companies also needed a contingency plan in case JVC's primary facility would be insufficient to support the demand. With help from a sister company, JVC sub-leased underutilized space within a JVC electronics distribution center in Douglasville, Ga., which provided tremendous flexibility.

JVC spent months seeking the optimal pallet configurations and storage methods for warehousing and outbound logistics. This required the assistance and approval of many supply chain partners, including transportation providers and retail customers.

"It was easy to focus on the challenges of managing inbound containers; however, we continued to remind our customer that outbound logistics may, in fact, be the 'gating' item," says Ron Vangrov, chief operating officer, JVC America. "It doesn't matter how many inbound devices we can receive and assemble if there is insufficient hardware to support the launch volume. There was also the question of truck availability and whether retailers could handle high volumes of product with limited shelf space and store-level warehouse capacity."

GAME ON. Ron Vangrov, chief operating officer, JVC America, takes a hands-on approach to delivering hot video games to eager consumers.

JVC worked closely with retailers and their 3PL partners to develop a reasonable launch plan, including allowing 3PLs to operate within the JVC facility. The 3PLs brought their hardware to the facility and processed store-level orders on-site, eliminating transportation costs and time associated with moving product to a DC.

[SNAPSHOT]

[CASE STUDY]

The Art of Automation

Warehouse automation upgrades set the stage for Koch Entertainment Group to speed order fulfillment and move its music products to market faster than competitors.

Koch Entertainment Group bills itself as an independent music distributor, but its volume suggests it's no small operation. Koch maintains a catalog of 25,000 titles and supports 100 active labels – including 40 of its own – out of its 100,000-square-foot warehouse in Port Washington, N.Y.

Koch has turned to automation in a big way, outfitting its warehouse with enough equipment to make even the most stoic distribution geek drool. Robotic picking and an automated storage and retrieval system crane handle large orders, while a pick-to-tote system helps facilitate smaller picks. Over the last five years, while artists began migrating away from the standard jewel case to alternative CD packaging, including cardboard sleeves, Koch experienced increasing demand for small shipments, which often are delivered directly to stores or to the end customer.

The warehouse totes were designed to hold 150 CDs or DVDs, but a plethora of orders for 10 to 20 CDs began taking up tote space and causing backlogs. The company lost additional time to manual shipping processes.

To manage the change, Koch invested in a high-speed sortation machine and a new shipping solution capable of handling up to 1,200 small orders an hour, and 18 orders simultaneously. A load balancing system helps operators redirect orders within the warehouse to prevent backups. Extremely sensitive gripping mechanisms on the sortation machine allow variable form factors, including cardboard sleeves, so Koch has the flexibility to use automation on a variety of package types. The new equipment has enabled Koch to stay competitive, even in the high-cost New York market.

"Our operations are highly automated and extremely flexible," notes Philip Wulff, Koch's senior vice president of logistics. "We've been able to adapt to fast changes in the entertainment industry."

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theaters on Nov. 3, 2006, could catch it online about six weeks later, thanks to Salvador Nunez Jr., who allegedly pilfered a screener copy of the DVD from his sister, an Academy of Motion Pictures Arts & Sciences member who received the DVD as part of the Oscar voting process.

Nunez was caught thanks to watermark technology, which embeds data within content such as digital movies to connect them with a particular recipient. The replicator used the technology to read the code within the content after it was posted on the Internet and provided the FBI with the recipient's name and address.

Such techniques are among an evolving arsenal of tactics designed to help protect intellectual property in a world where one in three of all music discs purchased worldwide is illegal, and one of every three business software installations uses pirated content.

The Content Delivery and Storage Association (CDSA), a Princeton, N.J., trade association and standard-setting body, certifies and audits mastering and replicating operators who comply with security standards governing everything from access control, personnel policies, chain of custody, and over-run destruction practices to ensuring that customers have legal authority to duplicate the product.

Efforts to implement new technologies and practices must continually evolve to stay ahead of those seeking to break them. One idea currently under consideration is tracking or controlling the transfer of replicating equipment to prevent purchase by questionable parties, particularly as the industry transitions to Blu-ray.

"Companies need to mitigate the gap between what they are doing and what should be done," says Timothy Gorman, director, worldwide anti-piracy and compliance programs for the CDSA. "They must accept a certain amount of risk."

In a lawsuit filed in August 2008, game developer Ubisoft, with U.S. offices in San Francisco, claims an employee at its former disc reproduction firm, Optical Experts Manufacturing, took home a copy of the video game *Assassin's Creed* and leaked it on the Internet six weeks prior to the title's launch. That not only caused 700,000 illegal downloads of the game and millions of dollars in lost sales, but circulated a deliberately buggy version that deflated sales and damaged Ubisoft's reputation.

Fear of such breaches and other types of piracy, as well as lax, and often unenforced, intellectual property laws in low-cost countries, have affected replicator selection.

The 800-Pound Gorilla: Digital Distribution The entertainment supply chain is in the throes of a business model change as digital distribution picks up steam. Unit shipments of CDs were down 17.5 percent in 2007 over 2006, while downloaded singles jumped 38 percent and albums 54 percent.

To ensure they play an ongoing role in the industry, many replicators have launched digital distribution divisions to manage and secure the process. And the CDSA is developing a security standard covering the digital distribution of content.

"We're positioning ourselves with an infrastructure and logistics model that has nothing to do with discs," says Duplium's Strobel.

But the migration to digital is not moving as fast as some expected, and for many companies it consumes more investment than it reaps in revenues. What's more, all that content still must be placed in some storage format; what's changing is where that transfer takes place.

Change is Predictable

Every entertainment release strives to be a dynamo, not a dud. Excitement over the possibility of creating the next big thing bleeds into the entertainment supply chain, which must be tuned to accommodate both dynamos and duds with equal energy.

Format issues, time pressures, security practices, and cost concerns will continue to challenge supply chain executives to keep entertainment content moving. It's a tough act to follow.

[CASE STUDY]

Distributors Add a Bonus Feature

Some entertainment distributors help companies launch new titles without upfront investment.

In many industries, distributors buy finished product and resell it to retail and other channels. In entertainment, distributors may put even more skin in the game–and gain the potential for larger margins than other distribution models deliver.

"We act like a bank for our customers," explains Jeff Strobel, senior account manager, Duplium Corporation, a Texas-based distributor. "We spend money on print, packaging materials, even on risk buys. We don't charge the customer until we've sold the product into the channel. They use our dollar, instead of their own, to get the initial product manufactured."

For example, Strobel just cut a deal to release four titles in the United States for a customer big in the European music scene. He planned an initial run of 50,000 CDs.

"I ordered print components and packaging for 75,000 CDs. That was a risk buy on my part, but I got a better price point, resulting in stronger margins," Strobel says.

After the product is sold into a channel, Duplium charges the customer back for the investment. The customer reaps the initial sales and assumes liability for unsold product, but Duplium owns the replenishment side of the business.

Duplium also manages e-commerce, kitting, assembly, fulfillment, and reverse logistics through a partnership with King Solutions, Dayton, Minn. "We act like a 3PL," Strobel adds.

[SNAPSHOT]

[CASE STUDY]

3PLs Pull the Strings

October 26, 2008, was the much-anticipated street date for *Guitar Hero: World Tour*. Getting the hot video game to stores quickly meant bypassing standard distribution routes.

"Distributing hot titles is one of our biggest challenges," says Dave Berry, director of logistics for Movie Gallery, the Dothan, Ga., operator of 3,500 Movie Gallery, Hollywood Video, and Game Crazy stores. "We have to be creative and flexible in how and where to do fulfillment."

Movie Gallery has developed relationships with 3PLs close to the locations of major game producers. The 3PLs handle fulfillment directly to stores, so retailers can start moving product – especially best-selling titles such as *Guitar Hero* – the moment it becomes available. In other cases, Movie Gallery personnel carve out space right on the game vendor's docks and do fulfillment there.

A game such as *Guitar Hero*, with packaging configurations accommodating accessories including a guitar controller, add to the complexity. Movie Gallery distributed approximately eight truckloads of *Guitar Hero* product via these 3PL partner relationships.

Handling a highly coveted product outside Movie Gallery's own distribution facilities raises security concerns. The company mitigates that through stringent checks and balances. "We analyze starting and ending inventories to make sure the weights match," says Berry. "Granted, this approach is not as bulletproof as measuring inventory levels in our own DCs."

For hot products, however, the security risk pays off. "We are more efficient and achieve quicker time to market," Berry says.

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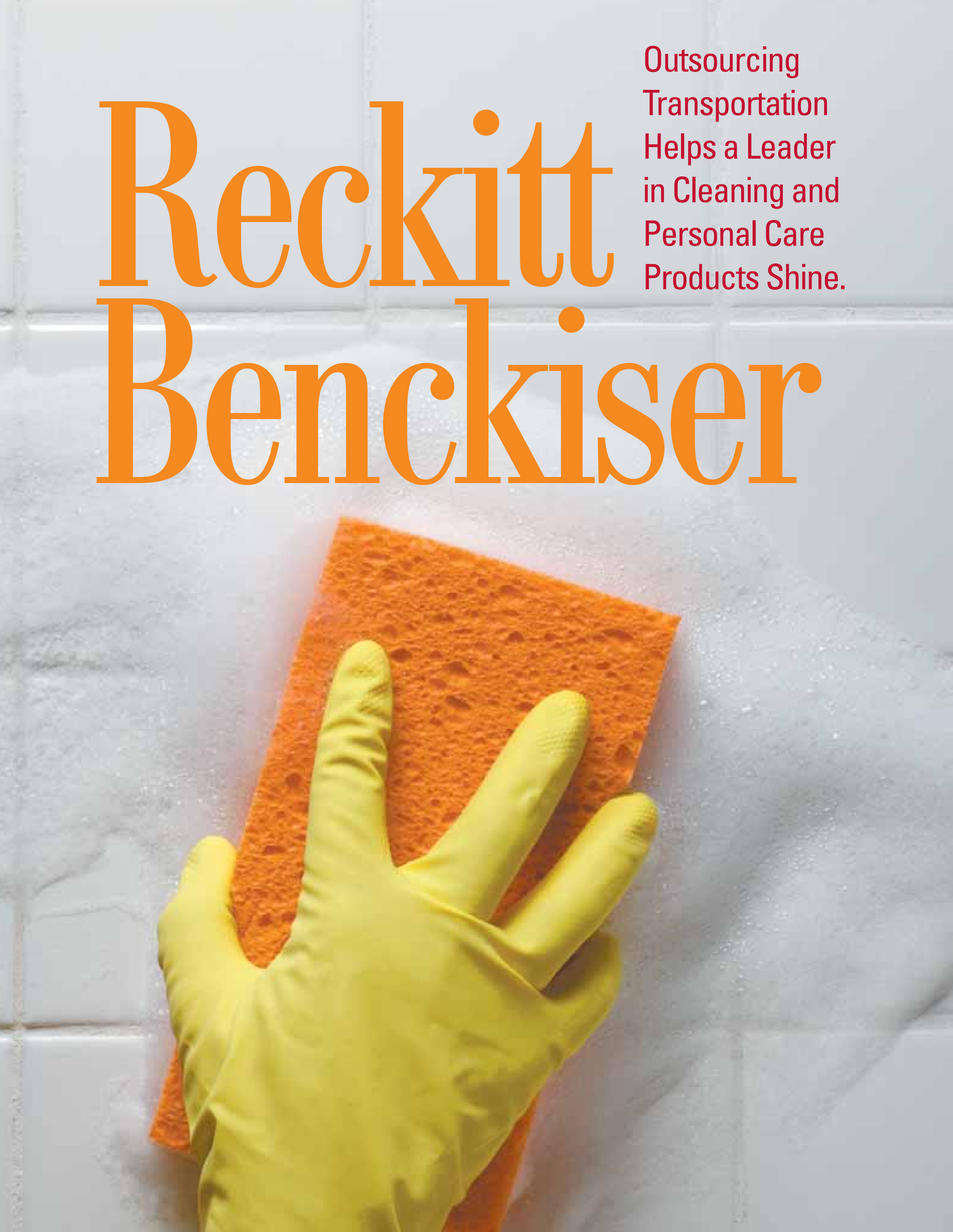

Keeping It Close

Although Reckitt Benckiser Group may not be a household name, its products certainly are. Look in the kitchen, laundry or medicine cabinet of almost any household in the Americas and you'll see Lysol, Woolite, French's mustard, Electrosol dishwasher detergent, Mucinex and, for teenagers, Clearasil acne medicine.

The United Kingdom-based company, is in fact a world leader in household cleaning products, and has dominant positions in selected health and personal care categories. With annual sales of over $7.5 billion, operations in over 60 countries and sales in 180, Reckitt Benckiser has experienced sustained net revenue growth of nearly 10 percent over the last seven years.

Like many industries, the consumer packaged goods (CPG) sector is challenged by the current difficult business environment – skyrocketing fuel prices, wavering consumer spending and ever more demanding customer requirements. But leading companies "are using creative strategies to manage costs while delivering value to consumers," according to Stephen Sibert, senior vice president for industry affairs at the Grocery Manufacturers of America. "We see this difficult environment as likely to continue, which means that consumer goods manufacturers... will need to stay nimble and initiate more collaboration in order to continue their growth."

Good advice – and exactly the strategy that Reckitt Benckiser embraced when it outsourced management of most of its North American transportation to a third party logistics provider (3PL), Ryder.

Ryder manages over $100 million in transportation spend for the CPG company. The 3PL orchestrates the movement of raw materials into seven manufacturing plants, and manages the transportation of finished goods from these plants to Reckitt Benckiser's five logistics centers, and then on to customers. Reckitt Benckiser's customers include major national retailers and grocery chains the

To Home

likes of Wal-Mart, Target, Safeway, Costco, Dollar General, Kroger, Publix and Family Dollar.

Within two years, the Reckitt Benckiser-Ryder collaboration produced a significant amount in savings for the company.

But more importantly for the long term, Reckitt Benckiser has significantly improved its service to customers, some of which are the most exacting in the business. In fact, Reckitt Benckiser's on-time delivery performance has jumped from 88 percent to 98 percent since outsourcing its transportation management to Ryder.

This is a critical customer service improvement that not only means more satisfied customers, but also considerable savings for Reckitt Benckiser in the form of significantly improved vendor compliance performance. Virtually every major U.S. retailer contractually requires vendors such as Reckitt Benckiser to meet stringent service requirements – for such parameters as on-time delivery and order accuracy, and assesses fees – or chargebacks – if they fail to do so.

Reckitt Benckiser's improved delivery performance translates into fewer fees with the savings going straight to the company's bottom line.

In addition, customers have noticed the difference in performance. Wal-Mart, for one, recognized Reckitt Benckiser's service improvement by awarding the company multiple Vendor of the Quarter awards during 2007 and 2008, according to Joe Rosiek, senior manager of North American transportation operations for the manufacturer. "That's significant because our target service levels are some of the highest of any of Wal-Mart's suppliers."

Starting from Scratch

Prior to launching its relationship with Ryder, Reckitt Benckiser was no stranger to logistics outsourcing. The company had outsourced its transportation management to two consecutive 3PLs. However, these providers lacked the capabilities the manufacturer needed to support its growth going forward in two important areas. Reckitt Benckiser wanted a supply chain partner with sufficiently robust information systems to not only manage its entire transportation activity portfolio, but to provide real-time visibility into the movement of

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product and orders throughout the company’s U.S. supply chain. The company also wanted a 3PL partner with transportation procurement clout, so it could leverage that greater volume to lower its costs.

In outsourcing its transportation operations, Reckitt Benckiser viewed the change as an opportunity to start over – and re-think the company’s transportation strategy and execution. “One of the first things we did was go back to the drawing board on our carrier and modal mix,” explains Rosiek. “We issued an all-out request for quotes (RFQ) for the range of transportation services we needed across the United States.”

During the RFQ process, Ryder and Reckitt Benckiser selected a core group of carriers – some were incumbents, some were not – and consolidated its transportation activities with this smaller group. “This consolidation of carriers gave us more leverage in our negotiations,” Rosiek notes. “Within nine months, we’d decreased our transportation spend by $2 million.”

A year into the relationship, Ryder and Reckitt Benckiser reviewed core carrier agreements, modifying them further so as to better fit the company’s needs. “We now had a year of real operating data under our belts, so we had a clearer picture of the company’s true transportation requirements,” notes Jason Thelen, senior operations manager at Ryder.

“We could step back and see patterns in goods movements, and view what was going on in the entire Reckitt Benckiser network from a much more strategic level,” Thelen observes. “With this more complete data, we were able to further fine-tune the transportation mix in terms of both service and price. While we didn’t necessarily change carriers, by analyzing our usage and cost histories, we found we could save some money and improve service simultaneously.”

In one instance, for example, by renegotiating its U.S.-Mexico cross border transportation package, Reckitt Benckiser expects to save about $1 million this year.

Thanks to having complete, accurate and current information on its corporate-wide transportation activities, the consumer products company for the first time has comprehensive visibility into this part of its U.S. supply chain. This visibility enables a more agile supply chain. “We can look at segments of Reckitt Benckiser’s transportation network and make changes when opportunities arise, without having to re-do the entire network,” explains Craig Clark, director of transportation management accounts for Ryder.

> This consolidation of carriers gave us more leverage in our negotiations. “Within nine months, we’d decreased our transportation spend by $2 million.”
>
> Joe Rosiek - *Senior Manager of North American Transportation Operations, Reckitt Benckiser*

The network can now flex and change based on customer dynamics, transportation costs, and other factors that emerge in the market. "We can be more responsive to our customers, and do so at optimum cost," notes Rosiek.

"We've also gone to Ryder for distribution network studies which tell us where we should be located," Rosiek adds. "These studies have helped us understand where our volumes are made, bought and sold. Based on that information, we assess whether we are actually shipping from the right places."

Based on the results of a network study, Reckitt Benckiser is strongly considering relocating its distribution center from Phoenix to Salt Lake City because the latter is better suited to serve the company's growing concentration of customers in the Pacific Northwest and Western Canada.

Close Connections

To manage Reckitt Benckiser's transportation operations on a daily basis, Ryder is electronically integrated into the manufacturer's enterprise order processing system. Thus, when Reckitt Benckiser receives a customer order, it is automatically transmitted to Ryder's transportation management center in Ft. Worth, Texas. There, the 3PL optimizes the order for delivery, using i2 Technologies' Transportation Management Solution. It builds loads to meet customer delivery requirements in the most cost effective manner. Then, Ryder electronically tenders those loads to carriers, and monitors them in real-time as they move.

"We have visibility of orders from creation through to end delivery," explains Thelen.

This real-time management of customer deliveries enables Reckitt Benckiser to see immediately if any problems arise along the way that may prevent the CPG company from delivering as promised to a customer. It can take appropriate corrective action which, in many cases, can avert a service failure.

While Ryder doesn't yet manage shipments inbound from suppliers to Reckitt Benckiser logistics facilities, the 3PL does load information about these incoming materials into its transportation visibility system. This gives Reckitt Benckiser up-to-date information about what's coming to its logistics centers from where, and when it will be delivered. If a supplier shipment is delayed or incomplete, for some reason, the visibility system alerts the manufacturer to this fact ahead of time.

This real-time visibility of incoming material improves supply chain operations in two ways: It enables the CPG company to better plan its logistics center operations, and it allows Ryder to better plan and schedule subsequent outbound loads.

To support Reckitt Benckiser's short-distance transportation needs, Ryder provides an integrated dedicated contract carriage offering. This solution supports three Reckitt Benckiser logistics centers, as Rosiek explains: "Our Ryder dedicated fleets handle customer deliveries within a 250-mile radius, inbound material shipments from suppliers or inter-facility freight movements. The dedicated fleet offers an efficient way for the company to get the short-distance transportation it needs for these specialized routes."

A Collaborative Process

One of Reckitt Benckiser's chief strategies for improving its service to customers is to collaborate more closely with the carriers delivering its products. To this end,

the transportation management team started holding quarterly meetings with core carriers. "We helped them understand our needs and how we measure performance – which is by customer order 'want' date," says Rosiek.

"Most carriers measure their performance at the load level," he continues. "If a carrier misses a delivery appointment, the carrier thinks it's 0 for 1 on service. But Reckitt Benckiser could have 15 purchase orders on a truck, which means 15 missed 'want dates.' That's a big difference. We helped the carriers understand this difference so they can manage more closely to avoid such service failures."

At the Reckitt Benckiser logistics center level, Ryder works to smooth the outbound order flows from the facilities to create more efficient operations. "We level load the carrier pick-up schedules," says Joe Rosiek. "We may get waves and spikes of orders at the logistics centers, but we do our best to schedule outbound loads to prevent traffic jams at the loading docks."

All of these changes are paying off for Reckitt Benckiser. "We're shipping a lot more revenue dollars than before out of our logistics centers," reports Rosiek, "and our customer service hasn't missed a beat. Our month-end pushes run more smoothly. Even quarter ends, which were always a big surge, are no longer an issue. In the past, some of them were very chaotic."

Mining the Data

One of the most valuable assets to come out of its two-year relationship with Ryder is the detailed database the CPG manufacturer now has on all of its U.S. transportation activities. Ryder regularly mines this information to identify opportunities for savings, efficiencies and operational improvements, particularly in areas that can enhance customer service.

Thanks to this extensive database, for instance, Reckitt Benckiser has gained a much more accurate picture of its actual transportation spend for its divisions. In the past, the manufacturer simply allocated transportation costs by percentage to its household and food divisions (70 percent and 30 percent respectively). These allocations were not based on actual cost data, thereby incorrectly skewing transportation budgets for the two divisions. "The household products division was making its budget, but the food division was taking a beating," observes Rosiek.

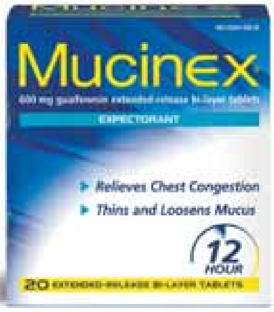
"We now provide Reckitt Benckiser with a complete record of transportation accruals," Thelen says, "which means they know each division's true transportation costs." That information helps build a more accurate picture of each product's and division's profitability.

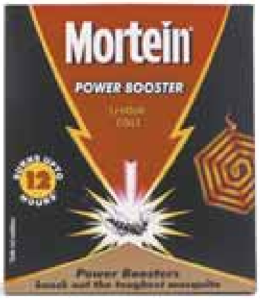
Ryder also uses Reckitt Benckiser's transportation data to manage activities on a more holistic, network-wide basis. "In the past," Thelen says, "the East would work as the East, a plant would work as a plant, and the West would work as the West. Each region or facility was optimizing based on its own little world, with no view as to how their actions affected the entire supply chain. So we worked to bring that to light, and move the company toward a total network approach to managing transportation."

Using the more comprehensive information on Reckitt's transportation activities, Ryder conducted a network design analysis. "They took all their orders and ran them through their network optimization tool," notes Rosiek. "The tool showed us how we could reduce transportation costs in certain areas by changing which logistics center we serviced them from."

Reckitt Benckiser has begun to use Ryder's analytical tools and capabilities in other ways as well – in decisions regarding taking on a new supplier or co-packer, for example. "They analyze supplier locations and tell us, 'If you buy from Supplier A, your transportation spend will be X; if you buy from Supplier B, your transportation spend will be Y,'" Rosiek elaborates.

Management can then make sourcing decisions based





on total delivered cost as opposed to purchase price alone. This enables the company to execute a better overall procurement program.

Beyond Cost Management

"With the company growing at 10 percent a year, we are focused on satisfying the customer over the long term," Rosiek emphasizes. "We're not just focusing on what it costs to get product delivered to them today."

"Ryder helps us keep our transportation costs in line, no question," the distribution manager acknowledges, but adds, "They have gone further than that and helped us significantly improve service to our customers.

"When I joined the company, our service performance to Wal-Mart and other category A customers was in the high 80s to 'required-to-delivery date' and in the low 90s in 'on-time-to-delivery appointment'," Rosiek recalls. "Today, our service is better than 98 percent on time to these companies. So our service has moved up seven to 10 points.

"Keeping our customers satisfied by providing the high service levels they want and need," Rosiek concludes, "that is the heart of our business."

Colby Foster, logistics manager, Ryder; Joe Rosiek, Senior Manager North American Transportation, Reckitt Benckiser; Craig Clark, Director of Transportation, Ryder, interpret valuable data when making decisions that will drive customer satisfaction.

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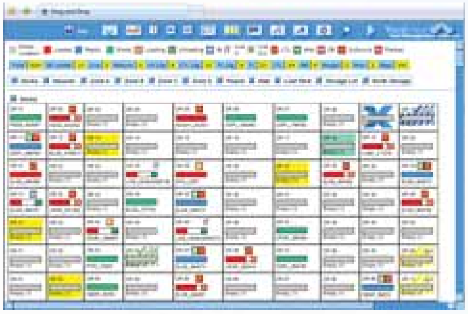

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I.T. Toolkit

by Dan Calabrese

High-Stakes Handling: Bally Hits the WMS Jackpot

Unwilling to gamble on warehouse operations, slot machine manufacturer Bally Technologies invested in a sure thing: a new WMS and data collection hardware.

It seems ironic that a high-tech video gaming systems manufacturer would depend on manual and paper-based distribution and fulfillment processes. But that was the hand Las Vegas-based Bally Technologies was playing.

Bally Manufacturing Company was founded in 1932 as a creator of wooden pinball games. Today, Bally Technologies designs, manufactures, operates, and distributes slot and video machines to a global gaming industry, including casino and video lottery markets.

It also designs, integrates, and sells computerized monitoring systems that provide casinos with networked accounting and security services for their gaming machines. Approximately 300,000 Bally game monitoring units are installed at more than 225 locations worldwide.

Despite its financial success–the company reported $889 million in revenue in fiscal 2008, with profits slightly less than $200 million–Bally knew its inventory management and warehousing processes needed improvement. Bally may have been on the cutting edge of gaming technology, but its warehouse operations had become antiquated, involving too many people, and too much paper and time. In 2008, the company decided to upgrade its DC systems to keep up with customer demand and boost warehouse performance.

"Under the old process, pickers reported to a warehouse administrator who told them what orders to fill," recalls Tony Evans, director of internal logistics for Bally Technologies. "Then the pickers had to allocate inventory, pick the items, and relay the pick information back to the administrator."

BETTING ON WMS

Evans estimates that the company's inventory data was only about 25 percent accurate. To bring warehouse operations into the 21st century, Bally bet on a new warehouse management

CONTINUED FROM PAGE 249

system (WMS) developed by Atlanta-based solutions provider Manhattan Associates and mobile computers and printers from Everett, Wash.-based supply chain technologies provider Intermec. Designed to collect information on the spot in real time, the new system dramatically transformed Bally's warehouse operations.

MILLION DOLLAR BABY

Bally invested more than $1 million in the new warehouse system, which launched in March 2008, and the gamble paid off. The system has already hit the jackpot with a $400,000 return on investment.

The new WMS includes a slotting optimization solution, and runs on the provider's Supply Chain Intelligence platform application. Bally uses the system for both its pick-and-ship operations and to feed production lines.

"The WMS focuses on order fulfillment," says Eric Lamphier, Manhattan Associates' distribution management product manager. "It addresses inventory and labor management concerns, such as tracking inventory at all times, and does it cost efficiently."

The WMS version Bally uses has been enhanced to take advantage of voice recognition and warehouse control system integration. It also automates picking, packing, and shipping, and minimizes the number of moves per order while analyzing order fulfillment to speed processing and improve customer service.

Lamphier compares the system to a cockpit or dashboard that enables managers to prioritize or make changes when

Using mobile computers and printers linked to its WMS, Bally Technologies gained real-time data collection capabilities and automated its picking, packing, and shipping operations.

dealing with supply chain capacity.

"Sometimes supply chain managers need to condense inventory data to create actionable information," he says.

THE MOBILE TOOLBOX

For the WMS to perform optimally, Bally needed to implement handheld computer and printer hardware that could not only enter information into the system instantly but also print inventory labels on the spot.

Bally selected Intermec's CK31 mobile computer and PB50 mobile printer. To date, Bally has implemented the system at its Las Vegas and Oklahoma City facilities.

Bally chose the CK31 for its rugged construction – its seams are completely sealed to keep out dust, dirt, and water; and it can withstand multiple four-foot drops to concrete.

The mobile computer can also scan from up to 20 feet away, and access Bally's network remotely, permitting users to walk between multiple warehouses at the same location and maintain connectivity. Lightweight two-inch and three-inch PB50 printers complement the mobile computers.

"One of the hardware's advantages is that workers don't have to walk to a station printer. They can print labels anywhere in the warehouse," Evans says. "And if a pallet is missing a label, warehouse workers can print a new one right there, eliminating the additional time it takes to put aside the pallet and fix the error."

Since Bally deployed the new solution, employees report increased effectiveness and autonomy.

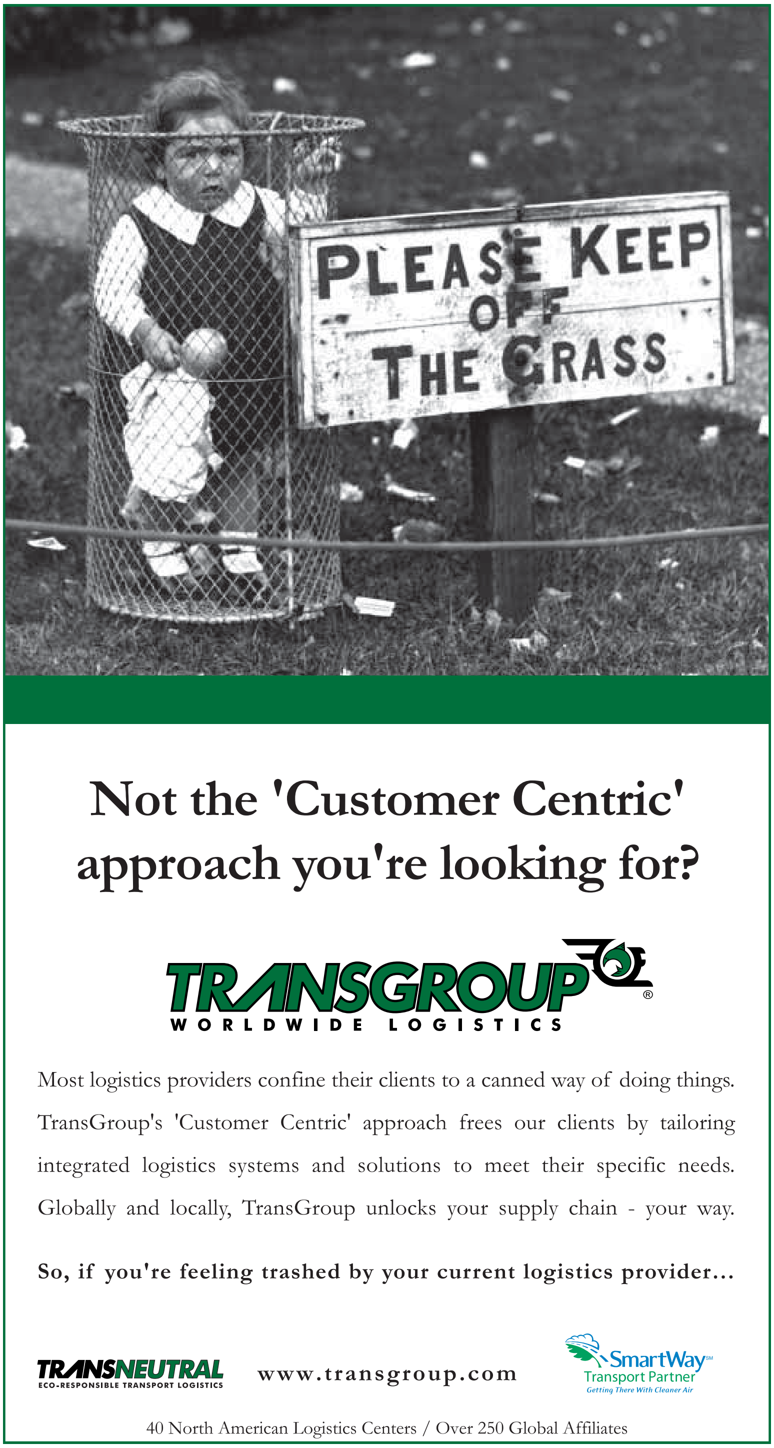
"Warehouse workers no longer have to wait for a supervisor to provide them with tasks to handle," says Evans. "The WMS allows daily responsibilities to be fed directly to the CK31, allowing users to complete functions faster and more efficiently without being micromanaged.

RANGE OF MOTION

"We were able to integrate the hardware with the WMS, which gave us long- and short-term range," Evans adds. "We could work with particular products in and out of inventory, perform cycle counts on the system itself, and move inventory anywhere in the warehouse without being confined to a station."

With the new WMS and Intermec hardware automating the process, Bally can now adjust inventory in real time during cycle counts, compared to the prior system, which did not allow for adjustments until after the count had been completed.

Thanks to its new tools, Bally's inventory data now scores a 90- percent accuracy rate. It's a welcome improvement, but only one step on the way to the company's ultimate goal of reaching 99.9 percent accuracy. With its new system in place, the odds are in Bally's favor. ■



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D.C. Solutions

by William Atkinson

Asset Tracking: The View From the Top

During the past several years, technology vendors have touted the benefits of radio frequency identification (RFID) over traditional bar-coding tools for tracking applications. Many shippers and warehouse operators were discouraged from investing in RFID, however, due to its high cost and shortcomings, such as lack of readability.

At an Atlanta reverse logistics facility, a real-time location system tracks assets from above – and zeroes in on doubled productivity.

A new technology introduced by Sky-Trax, a New Castle, Del.-based solutions provider, tackles those shortcomings head on, offering the functionality of RFID with the added benefit of 100-percent accuracy.

SEEKING BETTER VISIBILITY

GENCO Supply Chain Solutions, a Pittsburgh, Pa.-based third-party logistics provider, recently installed Sky-Trax's optically enabled real-time location system (RTLS) to eliminate operator-dependent data collection processes. GENCO manages more than 25 operations and 37 million square feet of warehouse space throughout North America, providing contract, transportation, and reverse logistics services to retail, manufacturing, and government customers.

The 3PL's Atlanta facility provides reverse logistics services for a large retailer. "Everything from clothing to tools to household goods moves through the facility," explains Cary Cameron, GENCO's senior vice president, strategic processes and technologies.

Prior to implementing Sky-Trax technology, the Atlanta facility used a passive RFID system to identify pallets as they were picked up.

"GENCO spent about two years trying to implement a completely automated inventory tracking system

CONTINUED FROM PAGE 253

at this facility," recalls Larry Mahan, Sky-Trax president and COO. "It used passive RFID on pallets, and ultra-wide-band active RFID to track the trucks that carried the pallets. This technology, however, couldn't meet GENCO's requirements."

The biggest challenge was accurately tracking the trucks using ultra-wide-band RFID; the facility's RFID read rate accuracy was less than 97 percent. Another disadvantage was cost: GENCO paid about 18 cents per pallet for the RFID tags. When Sky-Trax announced its indoor tracking system in early 2007, GENCO was all ears.

THE SKY'S THE LIMIT

Sky-Trax develops automatic data collection and location tracking systems for warehouse vehicles. *Total-Trax*, the system installed at GENCO's facility, provides asset and inventory tracking by integrating two of Sky-Trax's primary components.

One component is the *Sky-Trax System*, a positioning system that monitors and tracks every vehicle in the facility at all times, gathering precise location, direction, and speed data. The other component is *Skan-Free*, which automatically collects inventory data with an Optical Label Reader (OLR) affixed to the front of the vehicle, eliminating handheld inventory scanners, operator multi-tasking while driving, and data-entry terminals.

Using these components, the *Total-Trax* system records each truck's location when its OLR reads a pallet label, which is simply a bar-code label that GENCO prints and attaches to the pallet. The user accesses an operations management screen, called Ops Man, to view full path data and speed profiles, replay events, and review vehicle movements.

"The *Total-Trax* system uses an Optical Position Sensor, which is mounted on a lift truck and aimed at the ceiling to read Optical Position Markers," explains Mahan.

1

2

3

Keeping Track of Sky-Trax

***Total-Trax*:** Providing complete asset and inventory tracking, it is an integration of two Sky-Trax primary systems: *Sky-Trax System* and *Skan-Free*.

***Sky-Trax System*:** This positioning system monitors and tracks every vehicle in the facility at all times, providing precise location, direction, and speed.

1 ***Skan-Free*:** This system (*pictured, top left*) automates data collection by gathering inventory information with an Optical Label Reader (OLR). The OLR is affixed to the front of each vehicle to identify pallet labels. Data collected by the OLR is transmitted to an onboard data processor, then transmitted wirelessly back to a data collection system, eliminating the need for handheld inventory scanners, operator multi-tasking while driving, and data entry terminals.

2 **Optical Position Sensor:** Attached to each lift truck, this reader *(pictured, center)* views overhead, ceiling-mounted Optical Position Markers. It uses image analysis techniques to determine each vehicle's precise location and orientation. Vehicle location data is transmitted wirelessly to a controller, which monitors all vehicle locations and records every movement.

3 **Ops Man:** *Total-Trax* monitors and records the location and movement of all vehicles with this operations management screen *(pictured, bottom)* that displays each *Total-Trax*-enabled vehicle's location. Ops Man provides full path data, speed profiles, and the ability to replay events and visualize vehicle movements.

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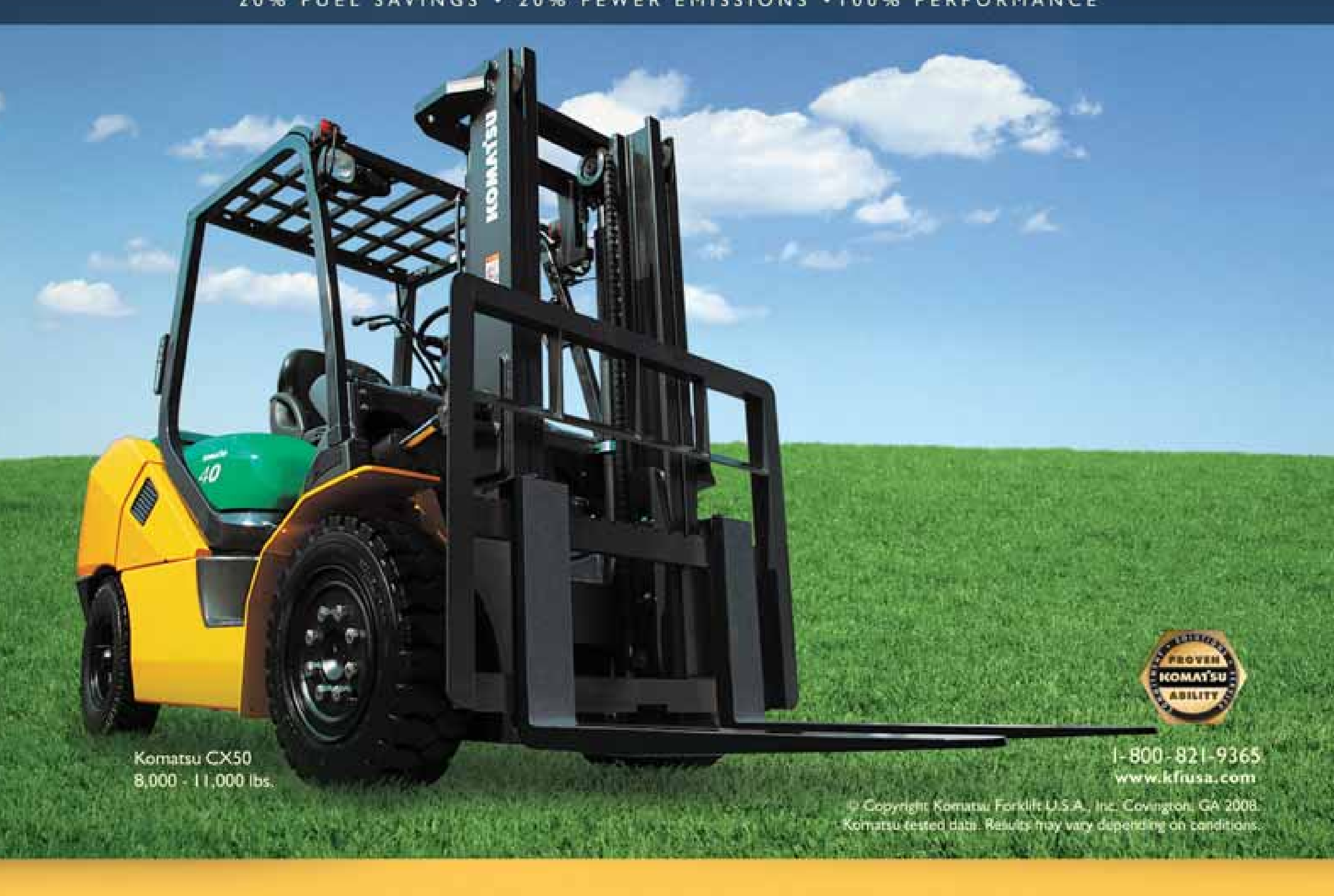

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RFID Smackdown

Do real-time location systems (RTLS) such as *Total-Trax* render RFID obsolete? Not quite, but they do claim some advantages.

"RFID can be the perfect application for some situations, but it isn't good at tracking pallets when they are being moved from location to location," says Larry Mahan, Sky-Trax president and COO. "RTLS reliably and accurately tracks mobile assets within a facility."

The foremost benefit of *Total-Trax* over RFID is reliability. "Because *Sky-Trax* is an optical system, the camera can achieve 100-percent readability as long as it has line-of-sight to the bar code," says GENCO's Cary Cameron. "During the RFID trials we performed, and even in some of our operations that are currently using RFID, we don't see 100-percent readability of every RFID tag."

Another drawback of RFID is tag placement. Some RFID solutions use tags embedded in the cement floor of a warehouse, with readers mounted on the bottom of the lift trucks. "Besides being an expensive installation, the bottom of the lift truck is a rough environment for the RFID reader," Mahan says.

GENCO also prefers *Total-Trax* because it is hands-free. "Our previous tracking process required the operator to use an RF device to manually scan the bar codes," Cameron says.

Sky-Trax's optical camera has eliminated the manual process. The operator drives up to the pallet and the camera automatically reads it. The operator then drives away without having to interact with the WMS through an RF device or any type of screen.

> **"Because *Sky-Trax* is an optical system, the camera can achieve 100-percent readability as long as it has line-of-sight to the bar code."**
>
> –**Cary Cameron,** senior vice president, strategic processes and technologies, GENCO Supply Chain Solutions

Based on the markers it reads, the system can determine the vehicle's location on the warehouse floor within one inch of accuracy.

"The sensors identify the space right between the forks, so the system knows the exact location of the pallet the vehicle is carrying," he adds. By tracking the vehicle, the system also follows the pallet it carries to the proper storage or drop-off point, such as a staging area or dock.

In late 2007 into early 2008, GENCO conducted a pilot test of the *Sky-Trax System* at its 328,000-square-foot facility in Atlanta. The results were impressive: all 14,000 pallets involved in the pilot study were put away with 100-percent accuracy, without traditional operator-dependent scanning. GENCO then boosted *Total-Trax* into full implementation.

Implementation was quick because operator training was not required. "All that is needed is an operator trained to drive a lift truck," reports Cameron. "The operator picks up pallets, looks at the screen to see where to take them, then takes them there." The operator does not need to punch keys or utilize an RF system.

THE SOFTWARE ADVANTAGE

To get the most from its *Total-Trax* system, GENCO upgraded its existing proprietary warehouse management system (WMS) software. The custom software layer provides additional features that enhance the WMS's capabilities, as well as a greater range of data for ongoing analytics and operational improvements.

"The Atlanta returns center was already running a GENCO proprietary software package," notes Cameron. "We opted to do our own internal programming so we could add some functionality that wasn't included previously in the WMS."

These upgrades rendered inventory placement irrelevant. A DC serving several customers does not need to allocate separate space for each customer because the system is so comprehensive and accurate that it can differentiate dispersed picks. "*Sky-Trax* provides the exact movement of every pallet," says Cameron.

The Atlanta facility maintains two inventory databases. Previously, it had to rely on operators to remember which part of the facility served individual customers.

"We don't need to differentiate now," she notes. "With the proprietary software's enhancements, we can update the correct database based on the type of product we pick up. Because we know the exact location where we placed it, we determine behind the scenes which database to update."

Another software update relates to routing. Even though the previous system would direct operators where to place product, they didn't always follow those instructions. "Because *Sky-Trax* provides the exact site of the lift truck, we can route the operator to the quickest-to-reach location," Cameron says.

The quickest isn't necessarily the closest. For example, because a lift truck can travel faster horizontally than it can vertically, the system may direct the operator to an open location on the first level, five aisles over, rather than to an open location on the fourth level, three aisles over.

GENCO's new proprietary software also integrates task interleaving (mixing tasks to reduce travel time) with the

Total-Trax system.

"For example, if an operator has just put a pallet away and there is another pallet in the vicinity that needs to be picked up, the system prompts the operator to get it," explains Cameron.

With traditional interleaving, it can be difficult, if not impossible, to measure increased efficiency. Not so when interleaving is linked to *Sky-Trax* technology.

"We have full visibility of every pallet, whether the lift truck is traveling with or without a pallet, as well as what path the truck took," Cameron says. "Having all this data enables us to measure interleaving's efficiency."

STAYING ON TARGET

When GENCO opted to install *Sky-Trax* in Atlanta, its goal was to double "re-warehousing" productivity, which involves putting pallets away. It hit that number, and, by late 2008, the facility had processed 65,000 pallets and had achieved 100-percent pallet identification and location accuracy.

Besides these direct productivity increases, the asset tracking technologies have provided a set of data over time that GENCO can use to analyze its materials handling process.

For example, the system automatically collects data on forklift utilization (time traveled with or without product), travel distances (miles and routes traveled), idle time (non-moving time), number of times a pallet is touched, speed of the materials handling equipment, percentage of aisle congestion, and near-collision information.

In October of 2008, Sky-Trax and GENCO placed as first runner-up in the Council of Supply Chain Management Professionals' 2008 Supply Chain Innovations Award program. CSCMP's award recognizes teams that demonstrate excellence and innovation in addressing a significant supply chain challenge.

Now that the Atlanta installation has proven to be an unequivocal success, GENCO expresses excitement about future opportunities using Sky-Trax technology.

"Our next Sky-Trax installation will be in a DC in early 2009," says Cameron. "The design phase is complete; now it's just a matter of beginning implementation."

Cameron hopes to process an additional *Total-Trax* installation in 2009, and install the system in several other return centers in the coming years. "One reason we like the system is its repeatability," she explains. "Now that we are operating the proprietary software, we want to install it in all our return centers."

The GENCO and Sky-Trax project in Atlanta was only the beginning. By tapping the experience gained on the track to implementation success, GENCO anticipates a shorter learning curve and longer list of Sky-Trax benefits in the future. ■

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Casebook

by William Atkinson

MATERIALS HANDLING EQUIPMENT

Popular Mechanics

If robots in the workplace make you think of a scene from a 1950s science fiction movie, think again. These versatile tools are used today to bring efficiency to many warehouses and distribution centers (DCs). For example, Framingham, Mass.-based office products company Staples Inc. is breaking fulfillment records by using robots in two of its DCs. One facility, a 300,000-square-foot DC in Denver, was designed specifically to benefit from a robotics system created by materials handling technology provider Kiva Systems, Woburn, Mass.

Robots do the heavy lifting at Staples' Denver distribution center, and they never call out sick.

Staples chose Kiva to help design its Denver DC after a previous success with the company in 2005. At that time, Staples' labor-intensive fulfillment processes were a weak link in its supply chain. The company's 500,000-square-foot Chambersburg, Pa., distribution center was nearly maxed out and experienced frequent fulfillment delays.

Staples first considered expanding the facility by adding conveyor belts, materials handling equipment, and staff, but ultimately chose a different direction. In January 2006, Staples introduced Kiva's robotic *ItemFetch* system in a 50,000-square-foot portion of the Chambersburg facility. The split-case picking system quickly reduced costs and increased efficiency, achieving more than twice the throughput per picker than a conventional pick-and-pack system. A typical conveyor-based operation allows workers to pick 200 to 400 items an hour; Kiva allows them to pick 600 to 700 in the same time.

During the past two years, Staples expanded its Chambersburg facility to 650,000 square feet, with 140,000 square feet dedicated to the robotic system, which handles 45 percent of the DC's total volume.

On the heels of the Chambersburg

CONTINUED FROM PAGE 259

installation's success, Staples tapped Kiva to help design the Denver facility, one of many Staples fulfillment centers providing fast delivery to home office and small business customers who place orders via Staples' Web site and print catalogs, as well as corporate customers who order primarily through StaplesLink.com.

One of the new facility's goals was to reduce fulfillment costs and maximize operational speed and flexibility. "Our target was the 'perfect order,'" explains Dave Carr, fulfillment center manager for Staples' Denver facility. "The order has to be correct, complete, on time, and in the condition the customer expects."

FAST AND FLEXIBLE

The Denver facility was set to open in June 2007. "Because Denver was a new market for Staples, it was looking for a system that could start small and get up to speed quickly, but also have the flexibility to expand as needed," says Mick Mountz, Kiva's founder and CEO.

Staples selected the same *ItemFetch* system used in its Chambersburg facility, as well as shipping solution *OrderFetch*, a Kiva product line extension.

MEET THE ROBOTS

ItemFetch robots measure about two feet high and three feet long, and are encased in orange plastic shells. Kiva employs mobile robotic drive units to route items and order containers to operator stations for picking and packing. A computer functions as both dispatcher and traffic controller, instructing the robots which racks to bring to specific workers without colliding with other robots in the process.

When orders come in, the computer directs the robots to the racks containing the items necessary for fulfillment. The robots navigate by reading two-dimensional bar-code stickers spaced one meter apart across the floor. *ItemFetch* uses standard K-Series robots, which can lift more than 1,000 pounds.

The *ItemFetch* robots slide beneath the racks, lift them into the air, and carry

Mobile robotic drive units fetch inventory racks and zip them across Staples' distribution center to pick-and-pack stations. To avoid collisions, a computerized dispatcher sends each robot on a specific route across the facility's floor.

The Nuts & Bolts of Robotic Technology

Wondering how all those robots and systems work together to put inventory in the right place? Here's a floor-level view of each process.

For **split-case picking**, where operators pick items from cases and pack them into shipping totes or cartons, mobile robotic drive units bring inventory pods to workers, who use a simple pick-to-light/put-to-light interface to fill each order. The operator completes the entire order without moving.

Case picking provides operators with access to any pallet in the DC, allowing them to pick full cases as well as individual items. When a pallet enters the building, it is placed onto a pod base that is moved to storage by a mobile robotic drive unit.

With **mixed-pallet building,** operators can build pallets with a variety of full cases, layering the pallet according to any specified sequence. The mixed pallet can then be routed directly to the shipping dock to be loaded onto a specific truck.

Shipping sortation allows completed split-case orders to move directly to the shipping area at the right time, in the right sequence. Split-case orders are picked into cartons or totes on shipping pods. When the orders are complete, the pod is either temporarily stored or travels directly to the dock door, where it is combined with other split-case and full-case orders to fill a particular truck.

For **split-case replenishment**, robots automatically deliver cases to stockers for replenishment of the forward picking area. This real-time replenishment process dramatically reduces forward stockouts, while improving storage efficiency.

them to pick-and-pack stations around the warehouse perimeter. Workers pull the products they need from the racks, then the robots return the racks to their proper locations.

Over time, the computer identifies pick frequency patterns, then instructs robots to place frequently used racks closer to the pick-and-pack stations, and to place less frequently used racks farther away.

OrderFetch provides shipping sortation. "It stores, moves, and sorts order containers in their various forms: empty, partially filled, filled, and finalized," explains Mountz.

THE PICK PROCESS

When the Denver facility receives an order to fulfill, the warehouse management system (WMS) loads it into the Kiva system. *OrderFetch* presents the order at a picking station with a pick-to-light system. An *ItemFetch* robot then travels to the inventory pods where items are stored and brings back a pod to the picking station.

"The picker grabs the items and performs a validation scan or UPC scan to confirm that the material is correct," says Carr.

When all the customer containers are completed, the *OrderFetch* pod shifts into the shipping application.

"*OrderFetch* pulls the order off one of the pods and scans it," Carr says. "The system gives the order a packing slip, pushes it through for dunnage and tape, then loads it on a trailer."

Denver currently has approximately 150 K-Series *ItemFetch* robots on site, along with 1,800 inventory pods and 200 order pods.

As in Chambersburg, the Denver facility realized double the productivity of a traditional picking system. But while the results have been impressive, Carr emphasizes that success is the result of the proper interaction between Staples employees and Kiva's technology.

Staples strives to hire the most qualified people and provide them with the best working conditions possible. Kiva helps Staples meet that goal. "Kiva technology ensures a quiet environment, which makes it easier for workers to concentrate," says Carr.

CASE IN POINT

At the Denver facility, workers will soon have another system to lend them a hand. Staples is currently implementing Kiva's full-pallet storage system, *CaseFetch*, which uses large R-Series robots that can lift more than 3,000 pounds.

CaseFetch transports pallets that are forkloaded into mobile pod bases at pick and drop locations. The mobile robotic pods then transport the pallets to storage areas.

To boost fulfillment accuracy and efficiency in its distribution centers, Staples relies on human and robotic laborers working together. That's not science fiction; it's 21st-century reality. ■

Time: 50 Years Location: All Truck Yards Event: Anniversary

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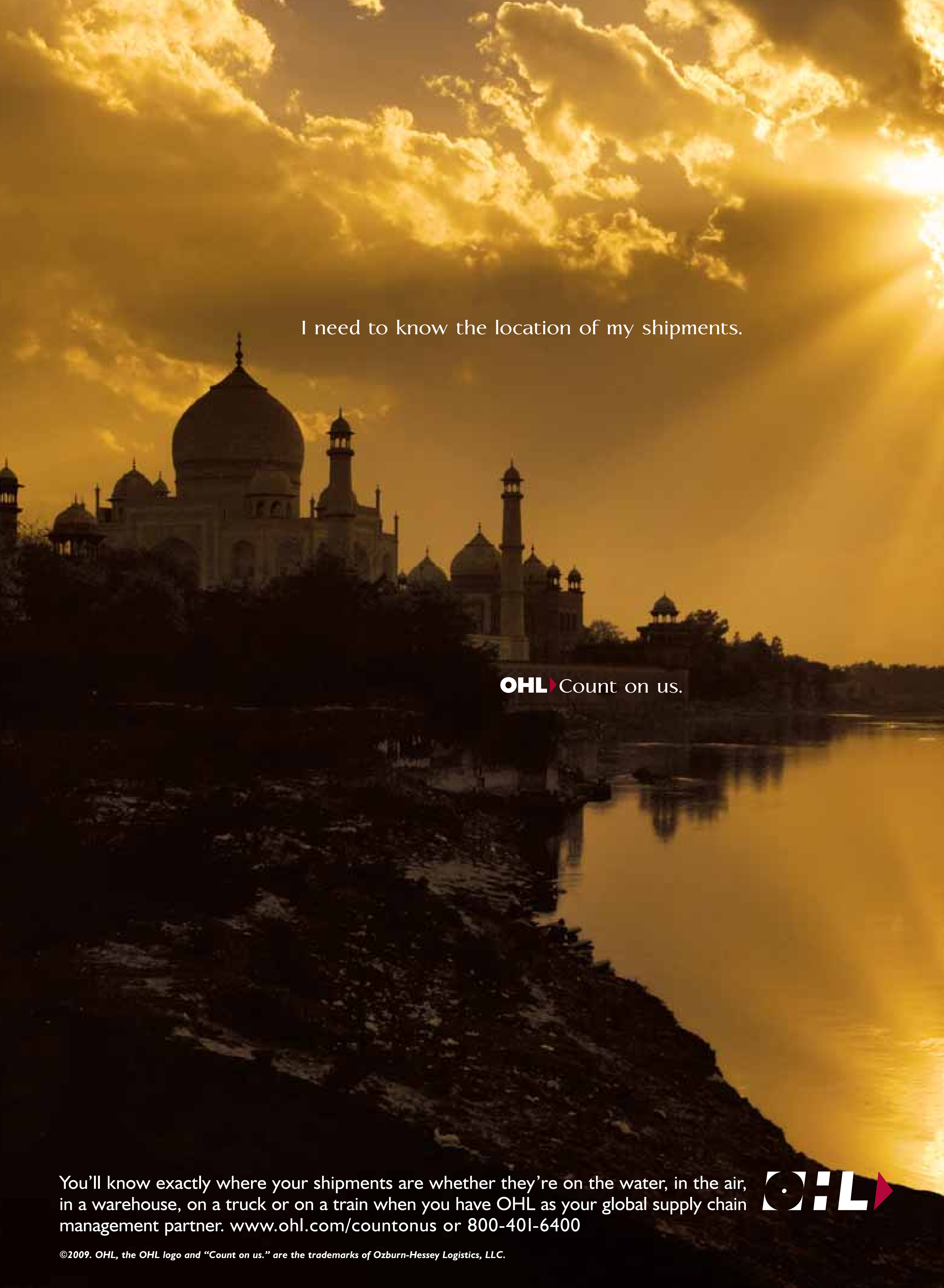

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WHAT'S NEW: Enhancements to the PriorityPak automated packaging system.

THE VALUE: The upgraded PriorityPak system includes an increased height capacity for packaging tall items, a steel frame that reduces shifting, and belt speed control that allows the system to change speeds based on the type of products being packaged. Improved sensing capability centers the product in the package, creates the smallest package dimensions possible, minimizes waste, and reduces the cost per pack.

⚛ **www.sealedair.com**
✆ **201-791-7600**

Pelican

WHAT'S NEW: The 9430 Remote Area Lighting System (RALS).

THE VALUE: Designed for warehouse and loading dock applications, the portable 9430 RALS weighs just 22 pounds, but its 360-degree swivel mast telescopes to nearly three feet, throwing the light's 2,000 lumens over a wide area. A 15-hour rechargeable battery powers the LED array, which provides reliable light for 50,000 hours.

⚛ **www.pelican.com** ✆ **800-473-5422**

Enviromodal

WHAT'S NEW: A bulk shipping bag.

THE VALUE: Designed to maximize railcar shipping capacity, RAILSAK offers transportation cost savings of up to 20 percent. The lightweight, environmentally friendly bags eliminate the need for pallets and dunnage, and allow shippers to fill a railcar with up to 180,000 pounds of bulk materials.

⚛ **www.enviromodal.com** ✆ **888-301-6862**

CONTINUED FROM PAGE 263

To learn more, contact these companies directly. Remember to mention this issue date and page to get the right information.

New Breed

WHAT'S NEW: A facility in Reno, Nev.

THE VALUE: The North Carolina-based third-party logistics company occupies 32,000 square feet in Reno's Spanish Springs Corporate Park. The facility's easy access to I-80 allows New Breed to better serve shippers in the western United States.

www.newbreed.com ✆ **800-781-0548**

Schneider Logistics

WHAT'S NEW: Five new freight forwarding offices at major gateways in the United States and Europe.

THE VALUE: Located in Chicago, Atlanta, New York, Rotterdam, and Amsterdam, the new offices provide shippers more import/export service options. Approximately 70 percent of freight handled in Rotterdam and Amsterdam is destined for, or originates from, other European countries. In the United States, the new offices meet East Coast and midland port demand.

www.schneider.com ✆ **866-875-9046**

Purfresh

WHAT'S NEW: A fungicide-free produce treatment.

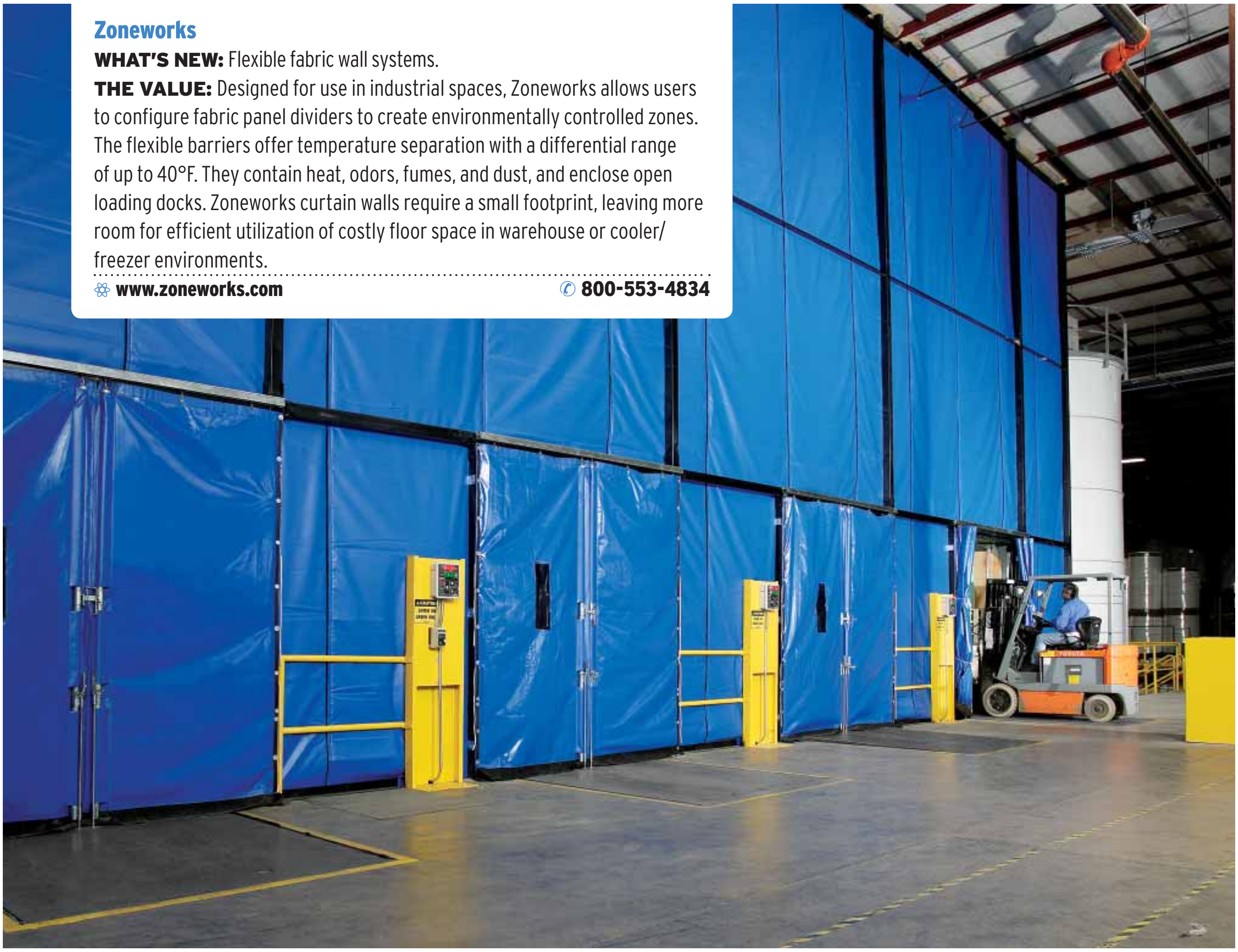
THE VALUE: The Purfresh Transport system integrates with standard refrigerated freight containers to protect produce against yeast, mold, and bacteria without the use of harsh chemicals or residues. The treatment reduces decay, controls ripening, and improves food safety in overseas shipments.

www.purfresh.com ✆ **877-668-0303**

Appleton Manufacturing

WHAT'S NEW: A battery-powered CartMover.

THE VALUE: Designed to safely and securely move loads on wheels, such as parts carts, shipping carts, machine modules, and product racks, the

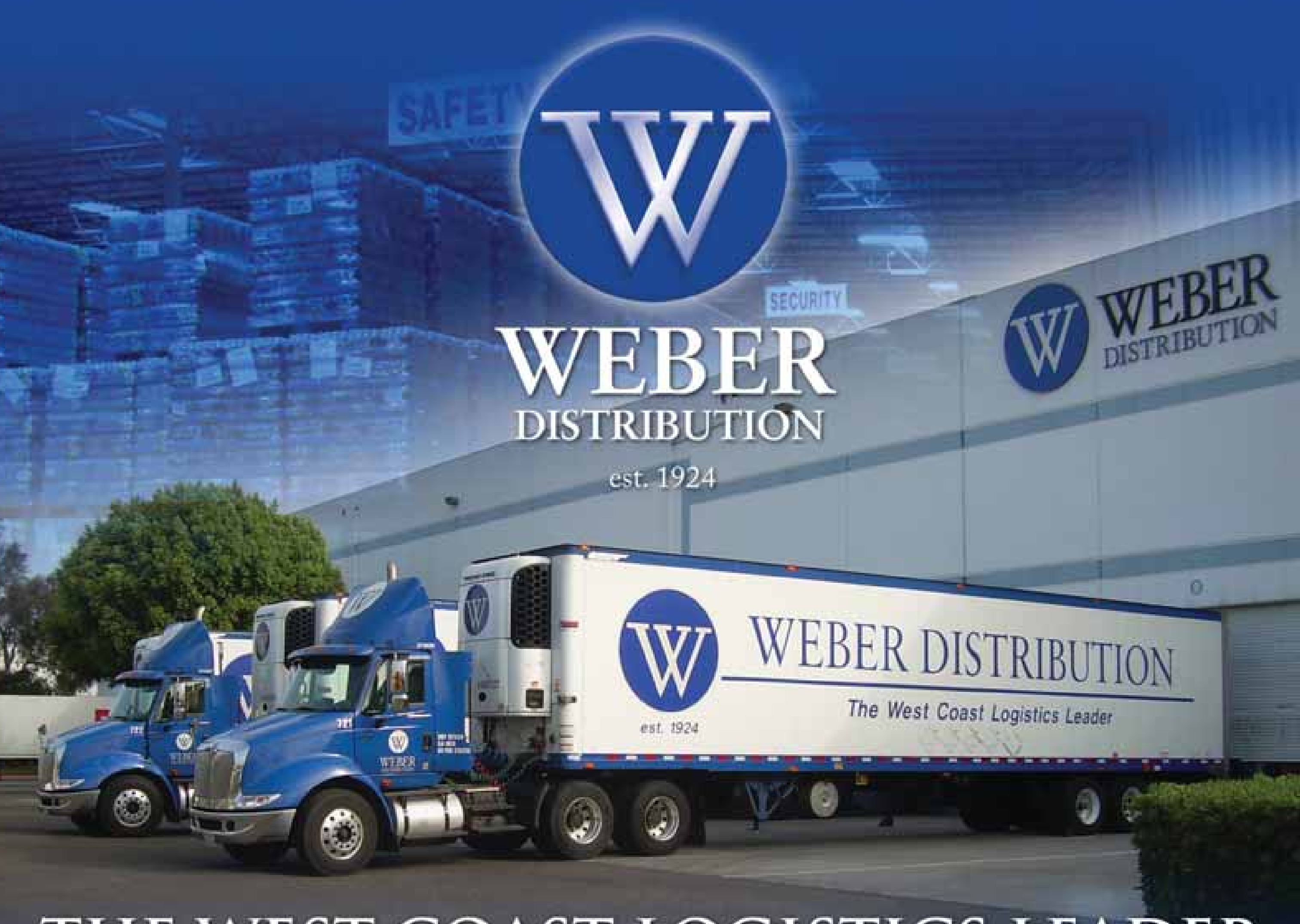


Zoneworks

WHAT'S NEW: Flexible fabric wall systems.

THE VALUE: Designed for use in industrial spaces, Zoneworks allows users to configure fabric panel dividers to create environmentally controlled zones. The flexible barriers offer temperature separation with a differential range of up to 40°F. They contain heat, odors, fumes, and dust, and enclose open loading docks. Zoneworks curtain walls require a small footprint, leaving more room for efficient utilization of costly floor space in warehouse or cooler/freezer environments.

www.zoneworks.com ✆ **800-553-4834**



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CONTINUED FROM PAGE 264

portable CartMover has a 100- to 20,000-pound weight capacity. Its batteries can be changed without tools in about 10 seconds. CartMover hitches come in a range of sizes and configurations to securely engage and move loads without risk of personal injury or need for additional machinery. Hitch options include top mount, base front mount, trailer-style, and various sizes of posts and claw.

⚛ **www.appletonmfg.com** ✆ **800-531-2002**

Atlantic Container Line (ACL)

WHAT'S NEW: A weekly Ro/Ro service from the United States and Canada to Beirut, Lebanon.

THE VALUE: Offered in partnership with ACL's parent company, Grimaldi Group, the service makes fixed-day calls at Dundalk-Baltimore (Thursday), PMT-Norfolk (Friday), FAPS-New York (Tuesday) and Fairview Cove-Halifax (Monday). The ACL G-3 vessels offer Ro/Ro equipment and capacity for 1,500 cars and 500 oversized vehicles; the Grimaldi Euro-Aegean vessels have capacity for 4,600 cars and 361 trucks. All vehicles and oversized cargo are parked in underdeck garages to provide cargo protection.

⚛ **www.aclcargo.com** ✆ **888-860-4013**

WCA Family of Logistic Networks

WHAT'S NEW: An alliance of perishables forwarding specialists.

THE VALUE: The WCA Perishables Partnership comprises independent logistics service providers and freight forwarders specializing in transporting time- and temperature-sensitive goods such as produce, seafood, flowers, frozen foodstuffs, and biotech goods.

⚛ **www.wcapartnerships.com** ✆ **847-800-7226**

TydenBrammall

WHAT'S NEW: A line of plastic security seals.

THE VALUE: The 11 new indicative seals show if an application has been compromised, helping stop product tampering, theft, terrorism, and contamination. The seals are suitable for use in air, ocean, truck, and rail applications, and can be pulled apart by hand or cut with a shear or snipping tool. The entire line is comprised of high-strength, impact- and chemical-resistant polymers that withstand extreme temperatures, offer tamper-resistant locking mechanisms for added security, and include surfaces that accommodate hot-foil, laser and/or label marking for easy-to-read serial number engraving.

⚛ **www.tydenbrammall.com** ✆ **260-665-3176**

APL

WHAT'S NEW: The twice-weekly Central America Express (CAX) and companion service (CX2) now stop in Miami instead of Port Everglades.

THE VALUE: Miami will be the only U.S. port of call for the service that connects Honduras, Guatemala, Nicaragua, and El Salvador with APL's major European and Latin American trade routes. By routing through Miami, shippers on the CAX can connect to APL's Atlantic Pacific Express and Atlantic North service for shipments to and from Europe. They can also use Miami to link with APL's New York Express for other major ports of call in Latin America and Asia.

⚛ **www.apl.com** ✆ **800-999-7733**

USF Holland

WHAT'S NEW: Next-day service upgrades in 20 lanes; a service center in Bedford, Pa.

THE VALUE: The following lane pairs from Albany and Syracuse, N.Y., have been upgraded to next-day delivery: Akron, Cleveland, and Youngstown, Ohio; Allentown, Bedford, Dubois, Erie, Pittsburgh, and Philadelphia, Pa.; and Baltimore, Md. Holland also opened a new 24-door service center in Bedford, Pa., that includes cross-dock capabilities. The facility serves central Pennsylvania, western Maryland, and a portion of West Virginia.

⚛ **www.usfc.com** ✆ **800-456-6322**

Kinetic Technologies Inc.

WHAT'S NEW: A series of green materials handling carts.

THE VALUE: The ProFlow series carts

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- POOL CONSOLIDATION
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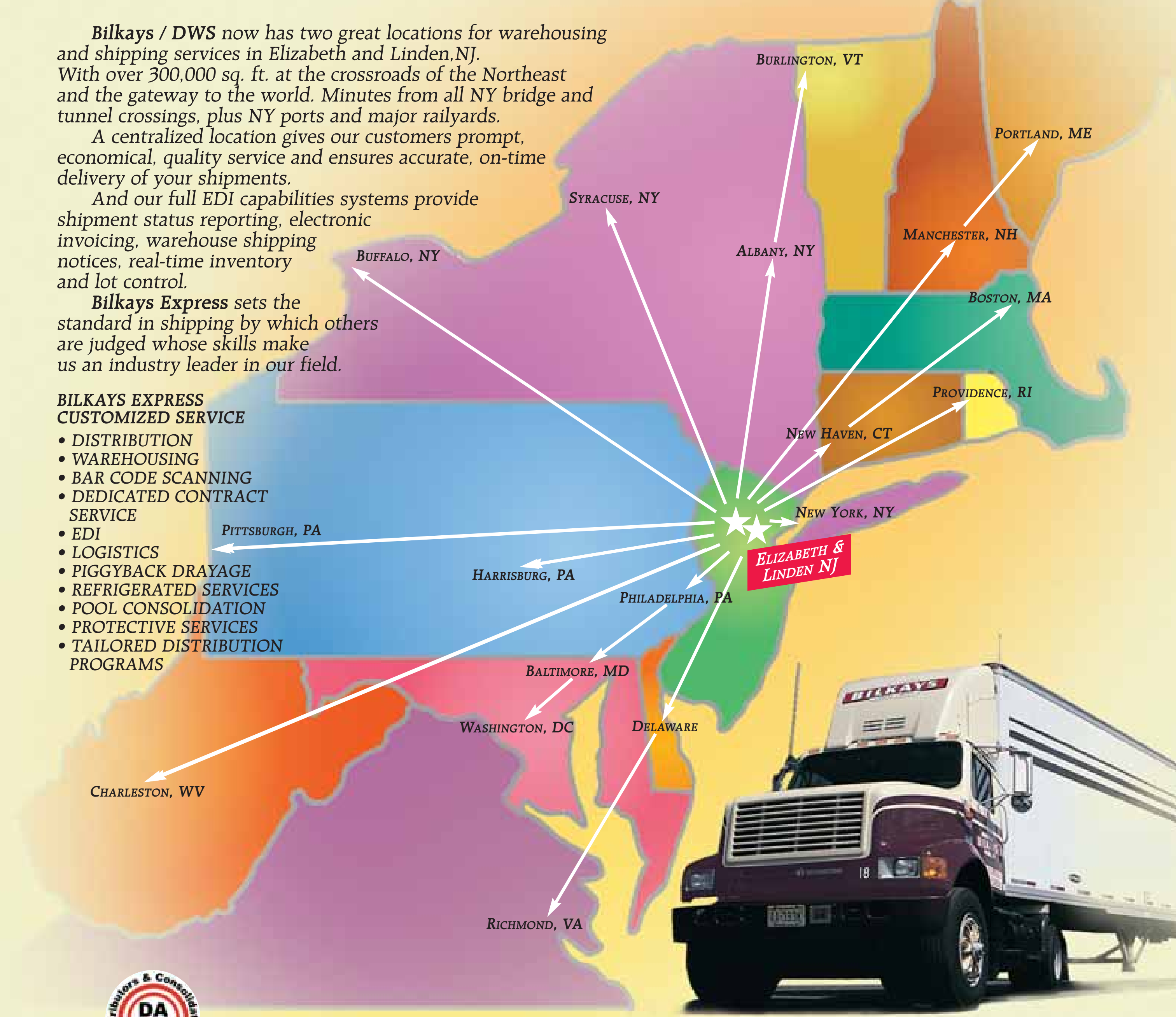

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are available in capacities up to 2,000 pounds, with deck sizes to 48 inches x 96 inches, and 4-wheel or 6-wheel caster steering. Moving loads manually or tugging trains of boxes and pallets rather than using forklifts results in less noise and lower overall emissions and energy usage, contributing to an environmentally friendly workplace.

www.ktecinc.com ✆ **440-943-4111**

Schneider National

WHAT'S NEW: Expanded service in the south-central United States.

THE VALUE: New terminals in Dallas, Houston, and Memphis serve as hubs for customer service representatives and drivers in the south-central region. The expansion, which includes the addition of 500 trucks and more drivers to the company's regional fleet, brings Schneider's footprint to 16 states. The carrier offers expedited, long-haul, and short-haul regional service.

www.schneider.com ✆ **866-875-9046**

Laufer Group International

WHAT'S NEW: A customs bonded container freight station in Kansas City, Mo.

THE VALUE: At the new 50,000-square-foot C-TPAT, USDA, and FDA certified facility, Laufer Group International provides domestic drayage and delivery programs, customs clearance, short- and long-term warehousing, cross-docking/transloading, and other consolidated freight services. It also offers the Asia-Midwest Direct Consolidation program serving Missouri, Kansas, Nebraska, Iowa, Arkansas, and Oklahoma. This service provides LCL importers faster transit time–up to 10 days–and the flexibility to consolidate destination deliveries from different Asian origins.

www.laufer.com ✆ **212-945-6000**

Exel

WHAT'S NEW: A multi-client distribution and fulfillment center network.

THE VALUE: With facilities in Chicago, Columbus, Dallas, Houston, Los Angeles, and Memphis, the network allows shippers to react quickly to market shifts, changes in inventory levels, and seasonal demands by locating material and finished product inventory closer to customers' consumption points. Each facility is equipped with a tier one, Web-based warehouse management system that provides end-to-end

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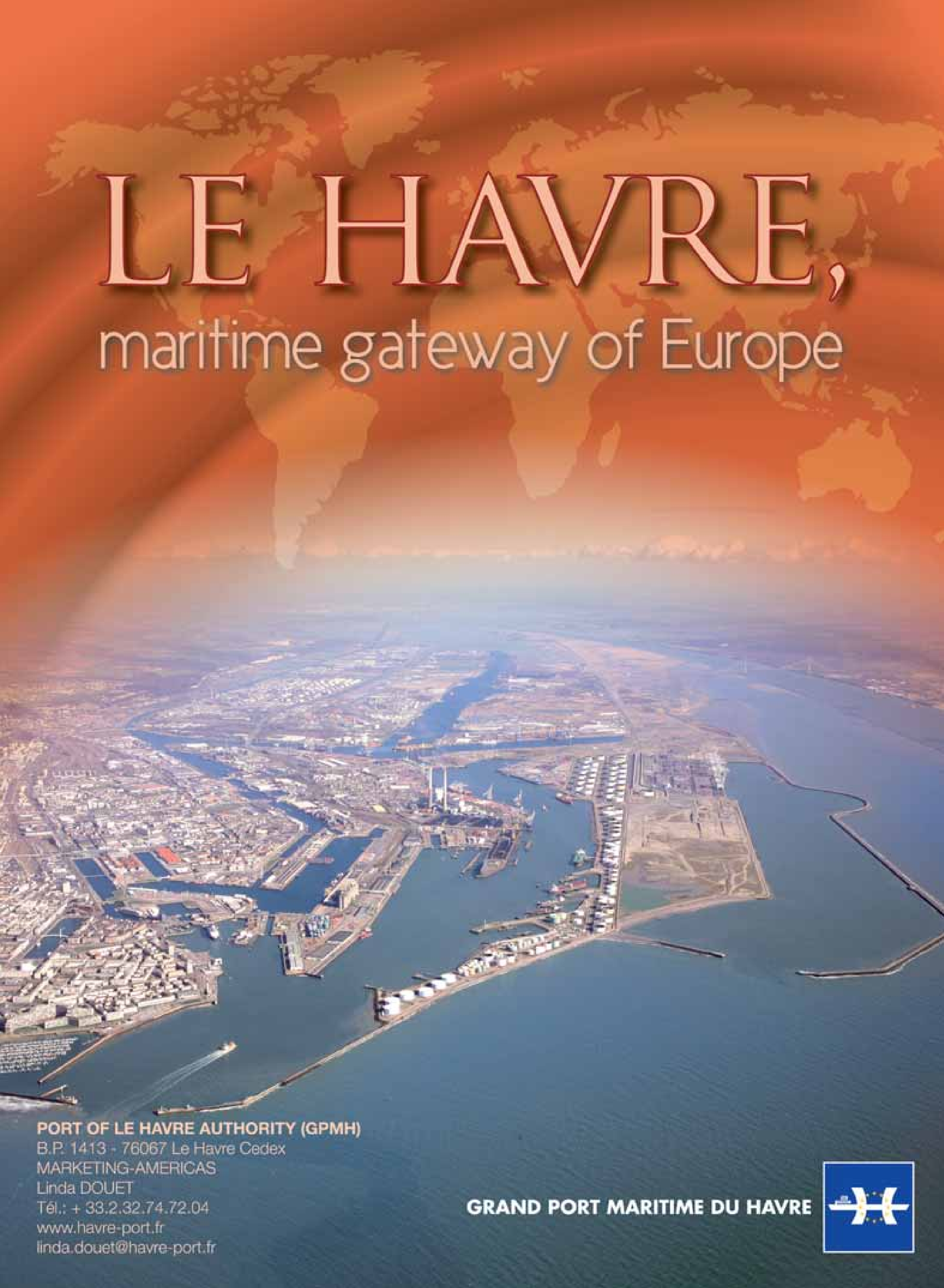

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GRAND PORT MARITIME DU HAVRE

CONTINUED FROM PAGE 268

Averitt Express

WHAT'S NEW: A distribution facility in west Atlanta; expanded LCL Asia-Memphis Express service.

THE VALUE: The 123-door Atlanta facility offers 52,000 square feet of dock space on 35 acres, and is equipped with current information technology to ensure shipment visibility and efficient operations. The Asia-Memphis Express expansion comprises two new origin points, Hong Kong and South China (Shenzhen/Yantian Port).

www.averittexpress.com
☎ 800-AVERITT

inventory visibility, as well as order management capabilities.

www.exel.com **☎ 800-272-1052**

Danzas AEI Emirates

WHAT'S NEW: A multi-purpose logistics facility in Dubai's Jebel Ali Free Zone.

THE VALUE: The 860,000-square-foot facility, the largest of its kind in the Middle East, provides shippers a gateway to Europe, Africa, Asia, and the Indian subcontinent. The facility offers a cold-chain logistics operation dedicated to serving the pharmaceutical industry's unique supply chain needs. It also provides services such as Good Manufacturing Practice labeling and kitting to more effectively serve the healthcare market.

www.us.danzas.com **☎ 800-426-5962**

The Grand Alliance (GA)

WHAT'S NEW: Additions to the South China Express (SCE) and Asia-West Mediterranean (EUM) services.

THE VALUE: The SCE moves from an eight to a nine-ship loop to accommodate the addition of Miami, Manzanillo, Balboa, San Pedro, Busan, and Shanghai calls. The GA adds Chiwan to EUM, which continues with eight ships of about 6,000 TEUs.

www.oocl.com **☎ 888-388-OOCL**

SeaBridge Freight

WHAT'S NEW: Short sea transportation service.

THE VALUE: The container-on-barge operation between the Port of Brownsville, Texas, and Port Manatee, Fla., links the Texas/Mexico and southeastern U.S. markets. The 600-TEU capacity barge provides four-day scheduled service, and logistics partners at each port offer local drayage, container transloading, warehousing, and other services.

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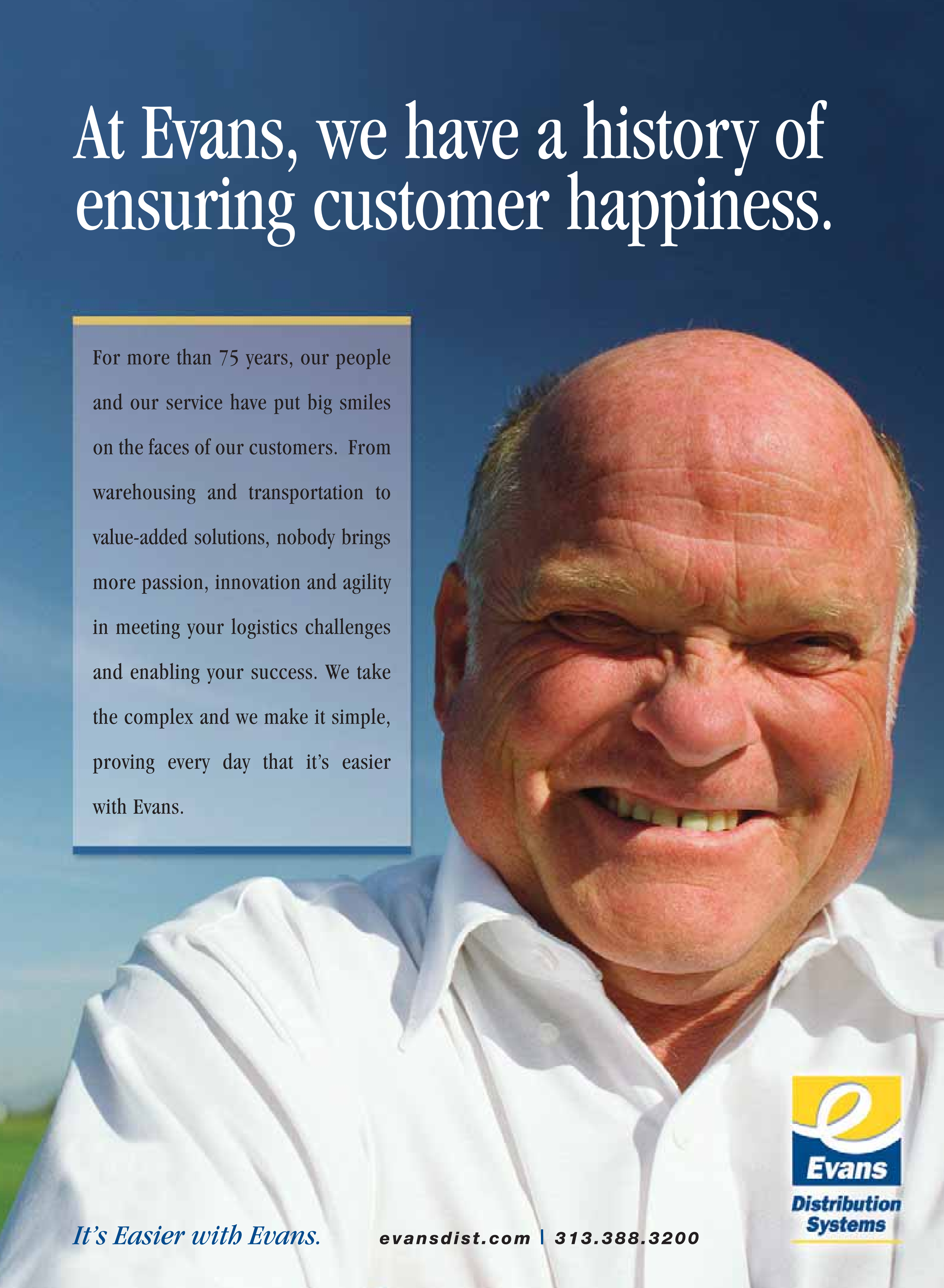

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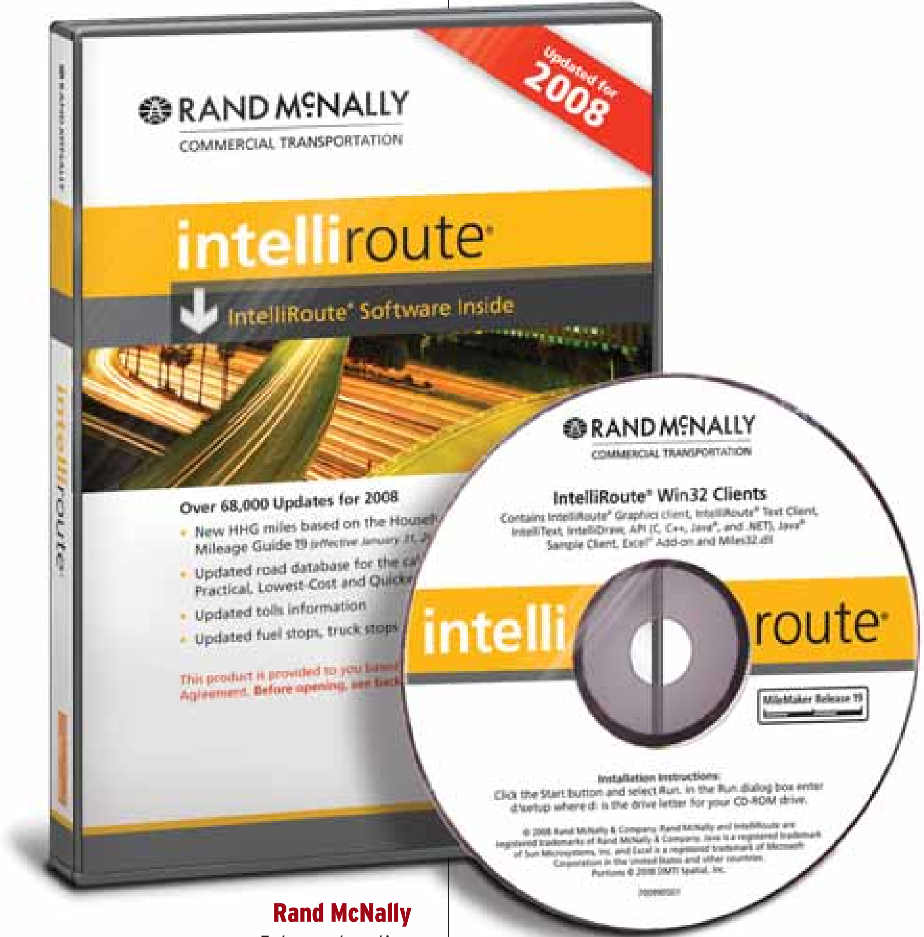

Rand McNally

WHAT'S NEW: Enhanced routing and mileage tools.

THE VALUE: Carriers and shippers can use Rand McNally's *IntelliRoute* and *MileMaker* software to customize their routing on city and inter-neighborhood streets throughout North America.

❁ **www.trucking.randmcnally.com**

✆ **800-234-4069**

software

Descartes Systems Group

WHAT'S NEW: The launch of Importer Security Filing (ISF) 10+2 readiness program.

THE VALUE: Designed for shippers, importers, customs brokers, carriers, freight forwarders, and NVOCCs, the *Descartes ISF Service* offers a comprehensive compliance solution for the new 10+2 customs regulations. *Descartes ISF Service* submits required data information electronically to Customs and reports the status of that filing in real time.

❁ **www.descartes.com** ✆ **800-419-8495**

Minerva Associates

WHAT'S NEW: Warehouse management software for mid-sized to Fortune 500 companies.

THE VALUE: New features in *AIMS* include graphical reports to provide at-a-glance status of multiple key inventory and order statistics, a streamlined user interface, drill-down menus, tabbed browsing, and increased database manager support.

❁ **www.minerva-associates.com**

✆ **858-792-8626**

HighJump Software

WHAT'S NEW: Enhancements to the *Supply Chain Advantage* solution.

THE VALUE: The most recent update provides productivity enhancements to the WebWise reporting and Web configuration tool, which provides real-time visibility into supply chain events as they occur. The new features include foreign language translations, expanded search capabilities, and improved volume update functions.

❁ **www.highjumpsoftware.com**

✆ **800-328-3271**

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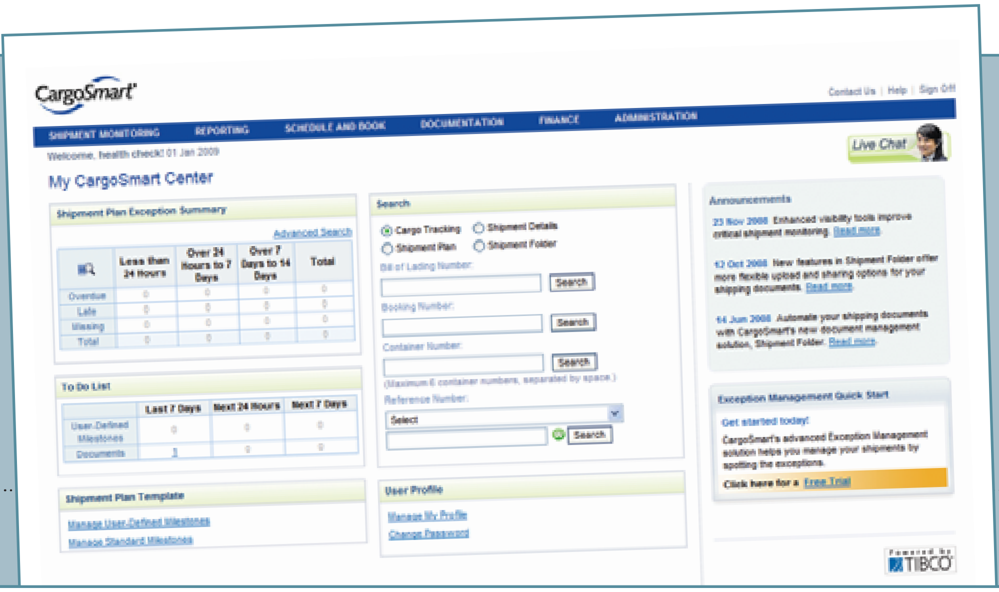

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My CargoSmart Center

Shipment Plan Exception Summary

	Less than 24 Hours	Over 24 Hours to 7 Days	Over 7 Days to 14 Days	Total
Overdue	0	0	0	0
Late	0	0	0	0
Missing	0	0	0	0
Total	0	0	0	0

To Do List

	Last 7 Days	Next 24 Hours	Next 7 Days
User-Defined Milestones	0	0	0
Documents	1	0	0

Shipment Plan Template

Manage User-Defined Milestones
Manage Standard Milestones

Search

● Cargo Tracking ○ Shipment Details
○ Shipment Plan ○ Shipment Folder

Bill of Lading Number:
Booking Number:
Container Number:
(Maximum 6 container numbers, separated by space.)
Reference Number:
Select

User Profile

Manage My Profile
Change Password

Announcements

23 Nov 2008 Enhanced visibility tools improve critical shipment monitoring. Read more

17 Oct 2008 New features in Shipment Folder offer more flexible upload and sharing options for your shipping documents. Read more

14 Jun 2008 Automate your shipping documents with CargoSmart's new document management solution, Shipment Folder. Read more

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CargoSmart

WHAT'S NEW: A documentation workflow management solution.

THE VALUE: *Shipment Folder* helps shippers, consignees, and logistics service providers streamline document management processes and comply with international trade regulations, including 10+2.

www.cargosmart.com
✆ 877-541-6625

Next Generation Logistics

WHAT'S NEW: Enhancements to *FreightMaster TMS*.

THE VALUE: *NGLExportDoc* improves efficiencies and reduces costs by preparing in-house export documents such as pro forma and commercial invoices, bills of lading, certificates of origin, declarations, and international trade documents. The *NGLRateComp* enhancement allows shippers to automatically compare existing freight rates to internally generated or externally purchased benchmark rates by freight lane.

www.nextgeneration.com ✆ 847-963-0007


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TradeBeam

WHAT'S NEW: Updates to *i-Supply* collaborative inventory management solution.

THE VALUE: With support for multiple inventory pull and push replenishment models, *i-Supply* enhances existing ERP, inventory, logistics, and warehouse management systems by making real-time information visible via the Web. The new *i-Supply* version features an enhanced Lean Order Scheduling feature that enables shippers to schedule multiple lean orders and pickups per day for as-needed inventory and share this information with carriers and 3PLs.

www.tradebeam.com ✆ 888-311-1415

Tradewind Software Ltd.

WHAT'S NEW: The release of *Stuff It* container planning software.

THE VALUE: This tool calculates the most economical way to load a container, and provides full landed cost information for each article in the container at the point of destination, either at a port or at the receiver's warehouse. Shippers can plan their purchase orders and specify how suppliers should load the goods.

www.tradewindsoftware.net
✆ + 86 136 977 588 04

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CONTINUED FROM PAGE 274

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Kewill

WHAT'S NEW: Enhancements to the *Clippership* parcel shipping solution.

THE VALUE: A new batch tracking feature allows shippers to set a number of days to track shipment status, and to execute this batch at a pre-defined time each day. The updated status information can then be brought into the user's customer relationship management software, and a call center and/or e-commerce site can use the data to gain better visibility.

www.kewill.com ✆ **877-872-2379**

Axway

WHAT'S NEW: A serialization and tracking tool.

THE VALUE: Providing serial number management, end-to-end visibility, and product authentication services, Axway's *Track and Trace* can reduce the scope of product recalls; aid in detecting counterfeiting, diversion, and fraud; and help organizations comply with drug and food safety regulations.

www.axway.com ✆ **877-564-7700**

CargoWise edi

WHAT'S NEW: Enhancements to the *edi-Enterprise* software solution.

THE VALUE: A data entry portal allows users to comply with 10+2 shipment documentation requirements.

www.cargowise.com ✆ **847-364-5600**

RedTail Solutions

WHAT'S NEW: Additional electronic data interchange (EDI) transaction reporting.

THE VALUE: The enhancements provide a single view of the EDI transaction process, making all data available on demand and sorted by date, EDI transaction type, or trading partner. With these in-depth reports, shippers can confirm that all pertinent EDI transactions have been exchanged properly, eliminate penalties associated with non-compliance, and ultimately streamline supply chain processes.

www.redtailsolutions.com ✆ **866-764-7601**

SATO

WHAT'S NEW: A series of high-volume desktop bar-code printers.

THE VALUE: Designed for use in logistics, manufacturing, and distribution, the D500 Series direct thermal printers are suitable for compliance and product ID labeling, and shipping/receiving applications.

www.satoamerica.com ✆ **704-644-1650**

partnerships

Vanguard Logistics Services and RoadLink

WHAT'S NEW: An intermodal service and technology offering.

THE VALUE: DrayMate, a new national inland intermodal service that combines neutral ocean services with a neutral drayage product, is supported by a technology platform of the same name. The solution allows Vanguard's domestic and international offices and agents to offer shippers both core ocean service quotes and a reliable drayage product, creating end-to-end online visibility for full containerloads.

www.vls-global.com ✆ **732-802-0304**
www.roadlink.com ✆ **877-87-ROADLINK**

ORTEC and TomTom WORK

WHAT'S NEW: An interface connecting TomTom WORK's navigation system with ORTEC's routing and scheduling solutions.

THE VALUE: Intended to serve the transport and distribution market, the partnership brings TomTom WORK's user-friendly navigation system to ORTEC's scheduling tool. Message data, such as delivery times and delays, from vehicles equipped with TomTom WORK can be used to perform immediate scheduling updates.

www.ortec.com ✆ **678-392-3100**
www.tomtomwork.com ✆ **978-405-1688**

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CONTINUED FROM PAGE 276

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Manhattan Associates (MA) and IBM

WHAT'S NEW: The addition of MA's *Distributed Order Management* (*DOM*) system to IBM's *WebSphere Commerce* solution.

THE VALUE: This certified integration between *WebSphere Commerce* and *DOM* provides retailers with a complete stack of cross-channel solutions: *Commerce* for cross-channel marketing and selling, and *DOM* for order fulfillment from an extended supply network, including distribution centers, stores, and drop-ship vendors.

www.manh.com ✆ **770-955-7070**

www.ibm.com ✆ **800-IBM-4YOU**

CipherLab

WHAT'S NEW: A pocket-size scanner.

THE VALUE: Weighing less than two ounces, the CipherLab 1660 BT wireless scanner automates workflow and reduces data capture errors in remote locations and warehouse and distribution applications. Using the 1660 BT with a portable computer, smart phone, or PDA, workers can collect and input up to 100 bar-code scans per second.

www.cipherlab.com ✆ **888-300-9779**

hardware

iKey

WHAT'S NEW: A mobile keyboard with Bluetooth technology.

THE VALUE: Designed for use in industrial settings, the BT-87-TP is specially sealed to be resistant to dirt, dust, water, ice, and corrosives for use in warehouse and material handling applications. It features an integrated touchpad and 87 keys, including 12 function keys, and connects easily with any Bluetooth-enabled computer. Measuring roughly 12 inches x 7.75 inches x 2 inches, the fully submersible BT-87-TP features a rugged ABS polycarbonate case with an easy-to-clean silicone rubber key overlay. Each BT-87-TP operates on two AA batteries and has a 30-foot range.

www.ikey.com ✆ **800-866-6506**

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Email: info@dutycalc.com
530-637-1006 (PST)

Doran

WHAT'S NEW: A tire-pressure monitoring system.

THE VALUE: The 360HD system monitors up to 36 tires for truck, tractor, and trailer applications with wireless tire pressure sensors that screw on to the valve stems and transmit a signal to a monitor in the cab. The device alerts drivers through multiple alarm types, including a new Fast Leak alarm, so they can address low tire-pressure problems, eliminating costly breakdowns and repairs.

www.doranmfg.com ✆ **866-816-SAFE**

Access Control Group

WHAT'S NEW: The Vigilant Lite forklift management system.

THE VALUE: For companies with material handling equipment fleets, Vigilant Lite offers asset tracking that helps meet regulatory requirements and corporate safety standards.

www.access-controlled.com
✆ **908-789-8700**

rfid/wireless

Advantech

WHAT'S NEW: Two mobile resource management products.

THE VALUE: The VITA-350P mobile data terminal monitors common vehicle performance data such as vehicle and engine speed, fuel level, brake switch status, and odometer data. It can collect data from long-haul trucks, private delivery fleets, tank fleets, trailers, and utility fleets, making fleet management more efficient and cost effective. The TREK-350R vehicle-mount display panel provides Geographical Information System information, offering vehicle location data, route planning, and dispatch and two-way communication.

www.advantech.com ✆ **888-576-9668**

ARINC

WHAT'S NEW: A real-time asset monitoring system.

THE VALUE: ARINC's Asset Assure uses satellite (GPS and Iridium) and wireless technology to ensure the safety





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and security of high-value and sensitive shipments. It tracks containerized cargo in real time without ground infrastructure, and uses customizable sensors to monitor temperature, shock, and container intrusions. Shippers have easy access to tracking information through a secure Web interface.

www.arinc.com ✆ **800-633-6882**

web

Logistics Management Solutions (LMS)

WHAT'S NEW: A Web-based transportation management system.

THE VALUE: TOTAL facilitates freight tracking and tracing and provides shippers with consolidated weekly invoices. LMS uses TOTAL's freight optimization technology to identify opportunities for freight consolidation and continuous move tours to maximize capacity and reduce costs.

www.lmslogistics.com ✆ **800-355-2153**

Dayton Freight Lines

WHAT'S NEW: An updated Web site.

THE VALUE: Dayton Freight's new site includes tools for scheduling pick-ups, estimating rates, and tracking shipments, as well as a downloadable freight route guide.

www.daytonfreight.com ✆ **800-860-5102**

AmeriQuest Transportation Services

WHAT'S NEW: A materials handling division Web site.

THE VALUE: AmeriQuest's new division's Web site reduces materials handling equipment replacement parts costs and service. Companies can search among three million parts for more than 100 OEMs. The system also enables users to perform research and provides real-time inventory levels and pricing.

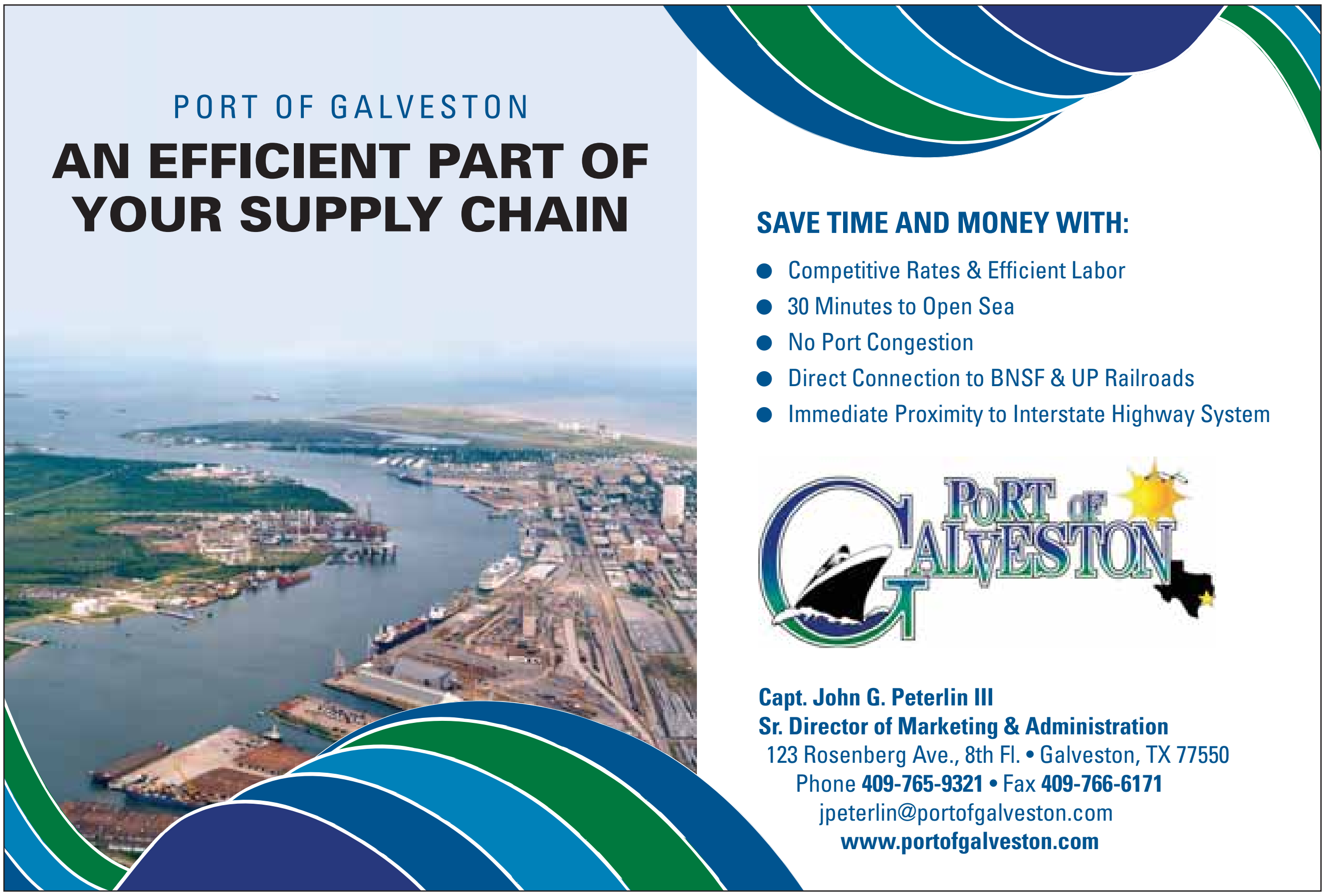
www.ameriquestlift.com ✆ **877-AMQ-LIFT**

GetLoaded.com

WHAT'S NEW: A rate index feature.

THE VALUE: GetLoaded.com's new tool breaks down the most profitable truckload lanes by analyzing the average, minimum, and maximum rates per mile; average fuel surcharge per mile; and average accessorial charges.

www.getloaded.com ✆ **888-565-3921**



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-- B. Blizzard, Director U.S. Logistics
Colgate Palmolive

"It's unique in the transportation industry to find a logistics partner that puts such a high value on learning your business and your customer's expectations. Lane Balance Systems has been that logistics partner for us since 2000, providing us asset-based dedicated solutions and truckload capacity coverage."

-- T. Maddox, VP of Supply Chain
TBC Corporation

"Lane Balance Systems has provided dedicated route services for us in Denver, CO since 2004. Our recent decision to sign a five year contract extension with Lane Balance Systems reflects our complete satisfaction with their commitment to meeting our expectations and those of our clients."

-- S. Fleener, VP of Transportation
Qwest Communications

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WhitePaperDigest

Industry experts amass supply chain management best practices and skill sets, and invest in new research and evaluation tools. Now you can benefit. *Inbound Logistics* has selected whitepapers that will give you a jump on important supply chain issues. For more information on these whitepapers, visit the Web sites listed below.

Ryder Supply Chain Solutions

TITLE: ***Streamlining ERP Implementations by Outsourcing Supply Chain Functions***
LENGTH: *9 pages*
DOWNLOAD: *www.ryder.com/lms_outsource.shtml*
SUMMARY: ERP systems are invaluable tools for consolidating and managing companies' disparate processes, but they are not always the best approach for every business function. Outsourcing is a proven method to achieve world-class logistics and warehousing operations in a fraction of the time–and risk–of implementing an ERP system. Read this whitepaper to learn how outsourcing distribution centers offers more flexibility and less risk.

Kuehne+Nagel

TITLE: ***Building Bridges: Relationship Management Is The New Core Competency***
LENGTH: *5 pages*
DOWNLOAD: *www.kn-logistics.com/whitepapers.cfm*
SUMMARY: The growth of logistics outsourcing continues, with some estimates putting the total outsourcing logistics market at nearly 10 percent of the total $1.3 trillion spent on logistics-related activities in the United States. The largest logistics service providers currently enjoy annual revenue growth rates of 10 percent, as shippers continue to focus their core businesses while engaging outside experts to achieve competitive advantage. Yet, despite the apparent win-win opportunity for service providers and shippers, more than half of all outsourced logistics contracts end within five years. Find out why efficiently managing partnerships is at the root of all successful logistics outsourcing.

Vocollect

TITLE: ***Maximizing Performance in Demanding Environments: Ensuring Wireless Security in Your Distribution Center Operations***
LENGTH: *5 pages*
DOWNLOAD: *www.vocollect.com/en/insider/index.php#voicebeyond*
SUMMARY: Today's DC environment faces many challenges, not the least of which is the growing concern of ensuring wireless security. New standards are being created and adopted, and information technology leadership places increasing priority on purchasing only products with proven proficiency in wireless security. This whitepaper outlines the security concerns to consider and the properties that help create a secure DC.

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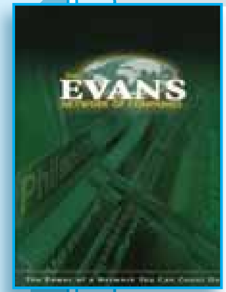

The Evans Network of Companies is a market-leading logistics partner with revenues exceeding $150 million and a fleet of more than 1,350 tractors and 70 terminals throughout the country, providing transportation services in the intermodal container and trailer drayage, van truckload, and flatbed markets. Request this service leaflet and discover the power of a network you can count on.

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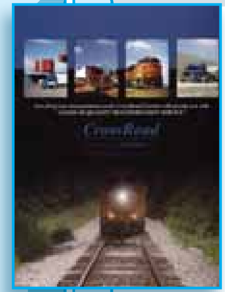

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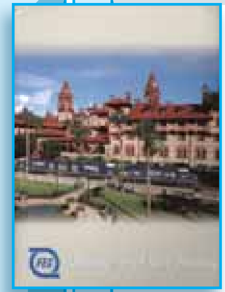

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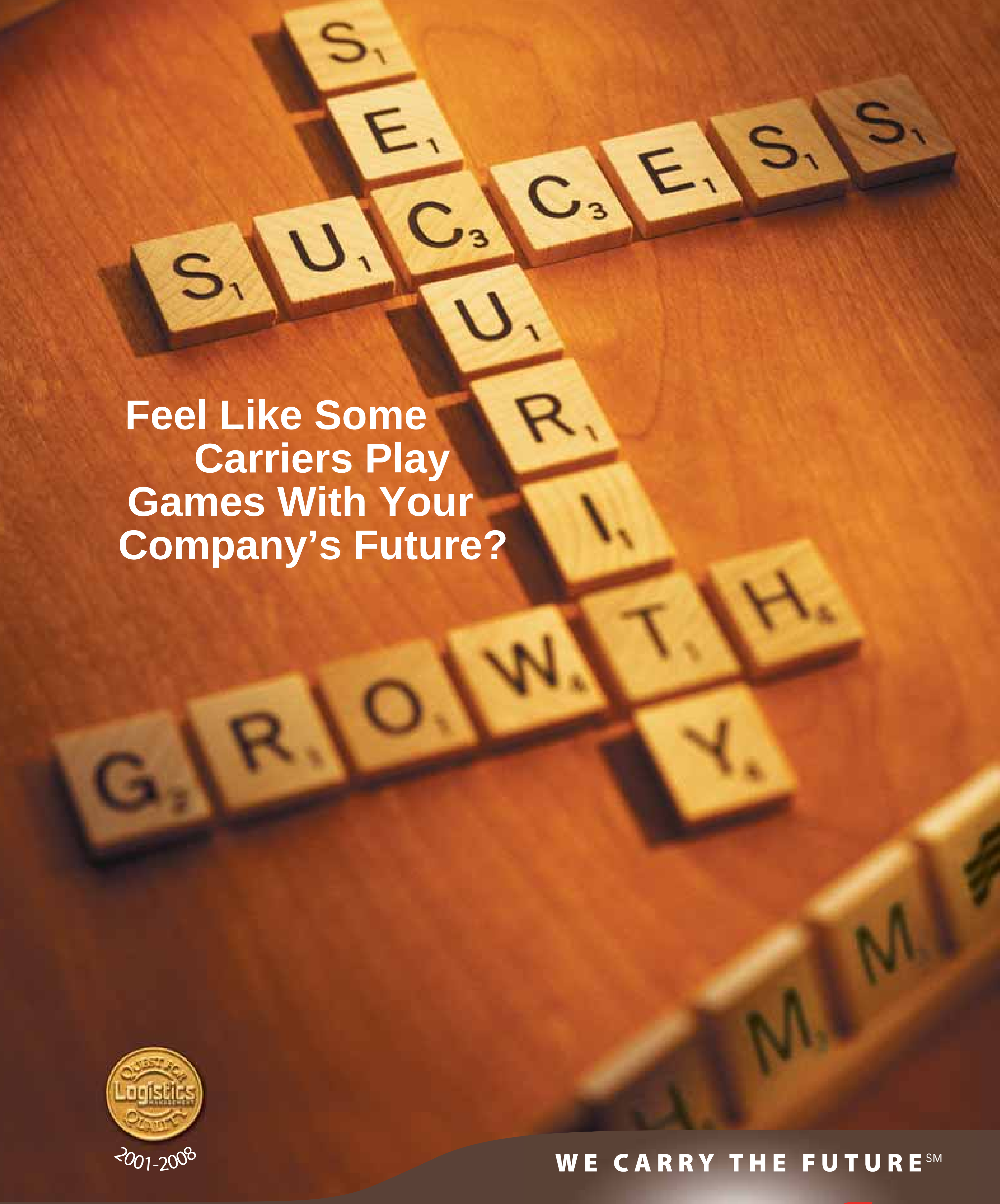
Resource Center continues on page 290 »



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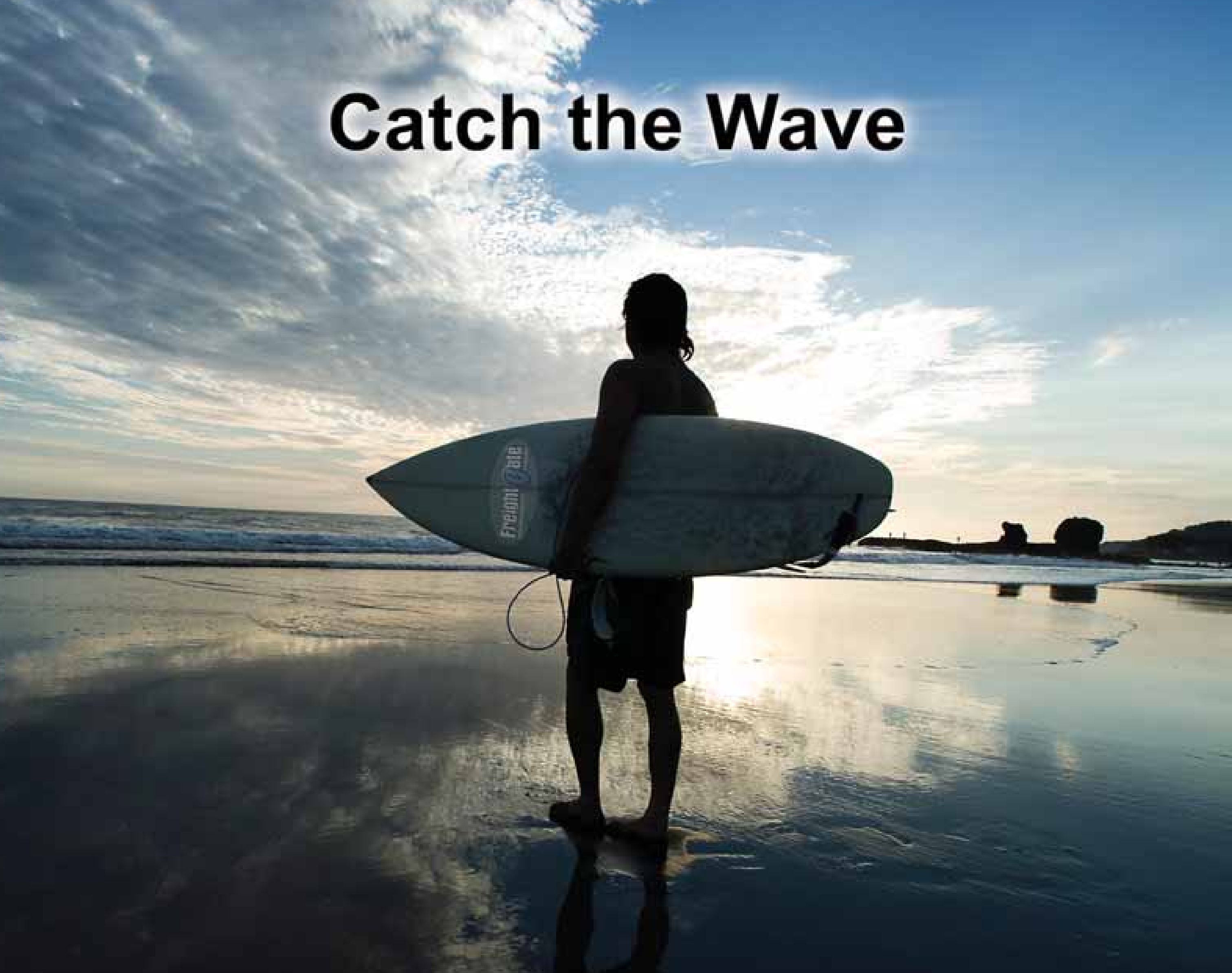

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AD PAGE: 267 **PROFILE:** 349

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AD PAGE: 326 **PROFILE:** 351

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www.chrobinson.com 800-323-7587

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AD PAGE: 7 **PROFILE:** 352

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AD PAGE: 77 **PROFILE:** 357

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www.cnworldwide.com 888-426-9962

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AD PAGE: 40, 165

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AD PAGE: 299 **PROFILE:** 363

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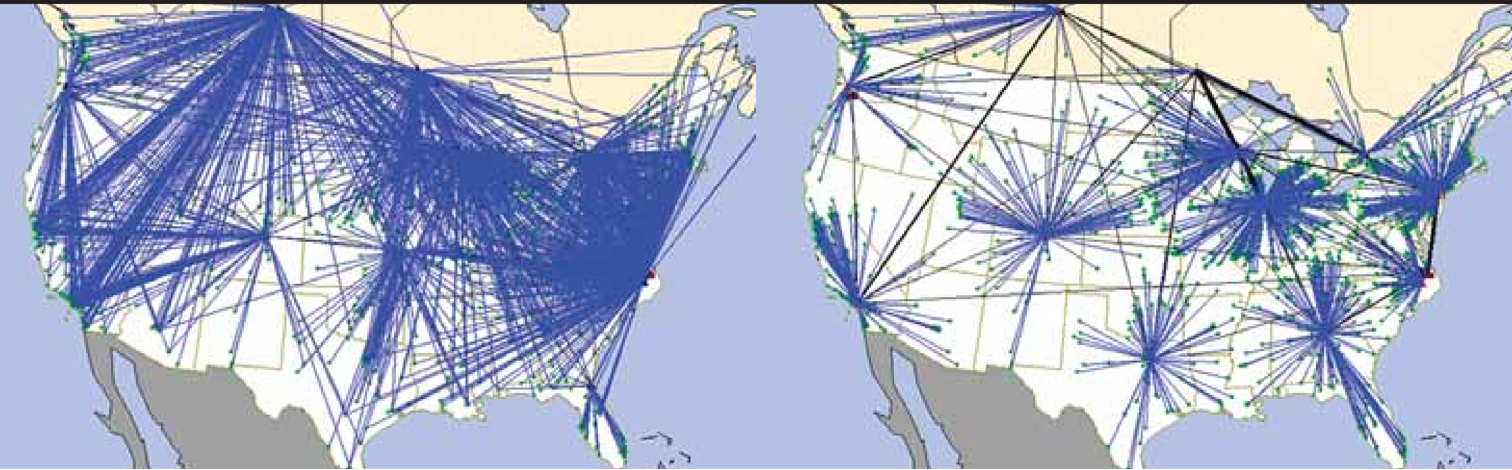

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AD PAGE: 41 **PROFILE:** 374

Echo Global Logistics

www.echo.com 866-845-3909

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AD PAGE: 27 **PROFILE:** 375

Evans Distribution Systems

www.evansdist.com 313-388-3200

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AD PAGE: 272 **PROFILE:** 377

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AD PAGE: 51 **PROFILE:** 379

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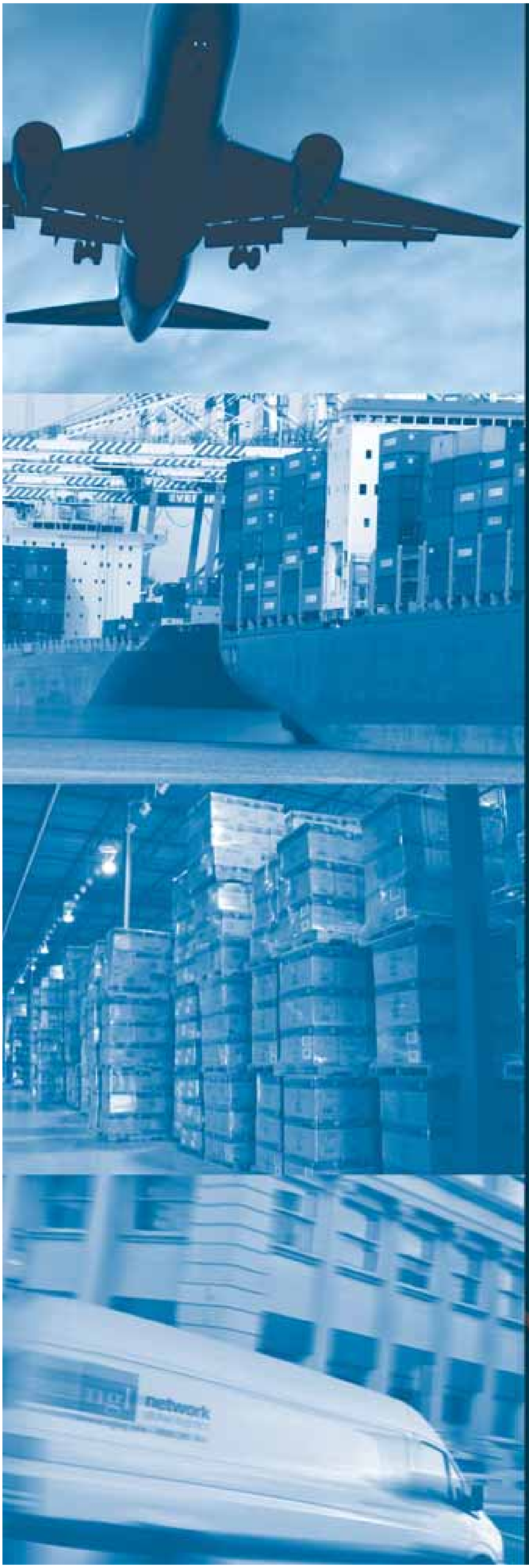

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AD PAGE: 155 **PROFILE:** 396

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AD PAGE: 169 **PROFILE:** 397

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AD PAGE: 281 **PROFILE:** 403

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www.newbreed.com 800-781-0548

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AD PAGE: Cover 2-1 **PROFILE:** 417

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Odyssey Logistics & Technology

www.odysseylogistics.com 203-448-3900

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AD PAGE: 85 **PROFILE:** 420

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AD PAGE: 262 **PROFILE:** 421

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www.pacer.com 888-722-7404

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AD PAGE: 149 **PROFILE:** 424

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AD PAGE: 21 **PROFILE:** 441

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AD PAGE: 121 **PROFILE:** 442

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www.revivalogistics.com 800-578-6009

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AD PAGE: 47 **PROFILE:** 444

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AD PAGE: 9, 241-247 **PROFILE:** 448

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www.saddlecrk.com 888-878-1177

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www.servicecraft.com 800-290-5952

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AD PAGE: 99 **PROFILE:** 453

■ Smart Management Group

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AD PAGE: 279 **PROFILE:** 454

■ SRC Logistics Inc.

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■ Sunrise Logistics

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■ Sunset Pacific Transportation

www.sunsetpacific.com 800-280-1677

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AD PAGE: 31 **PROFILE: 461**

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AD PAGE: 131 **PROFILE: 463**

TransGroup Worldwide Logistics

www.transgroup.com 800-244-0294

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AD PAGE: 227, 251 **PROFILE: 464**

Transplace

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AD PAGE: 105 **PROFILE: 465**

Tucker Company Worldwide

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AD PAGE: 213 **PROFILE: 468**

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www.unysonlogistics.com 888-581-1019

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AD PAGE: 215 **PROFILE: 470**

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AD PAGE: 117 **PROFILE: 473**

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AD PAGE: 265 **PROFILE: 474**

Werner Enterprises

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AD PAGE: 89 **PROFILE: 475**

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AD PAGE: 19 **PROFILE: 477**

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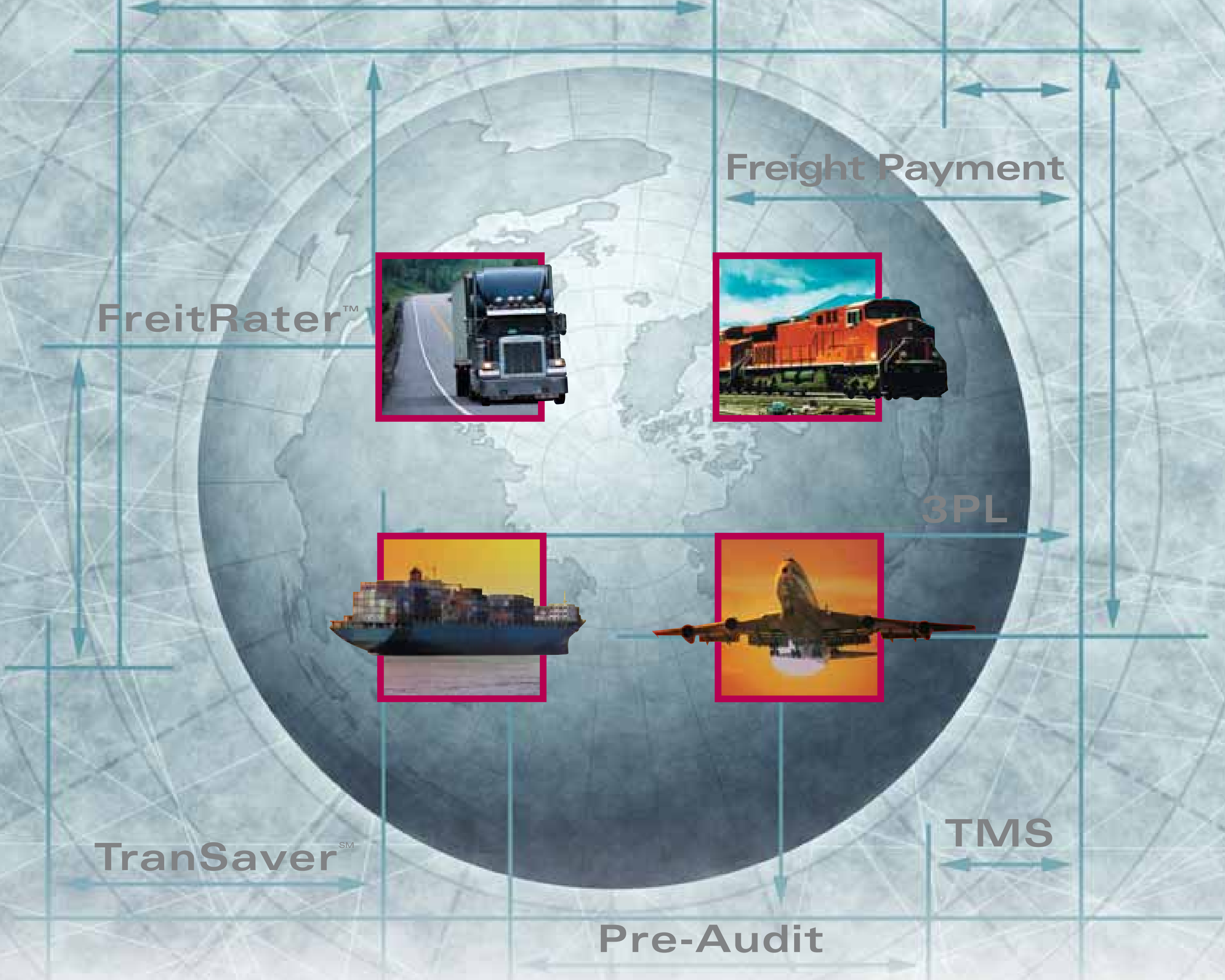

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AD PAGE: 20, 46 **PROFILE:** 406

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AD PAGE: 314 **PROFILE:** 337

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www.uces.csulb.edu/citt 562-296-1170

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AD PAGE: 315 **PROFILE:** 353

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www.elmhurst.edu 800-581-4723

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AD PAGE: 316 **PROFILE:** 376

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AD PAGE: 318 **PROFILE:** 383

■ Institute of Logistical Management

www.logisticseducation.edu 609-747-1515

The Institute of Logistical Management offers distance learning in many areas of logistics and supply chain management.

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AD PAGE: 270

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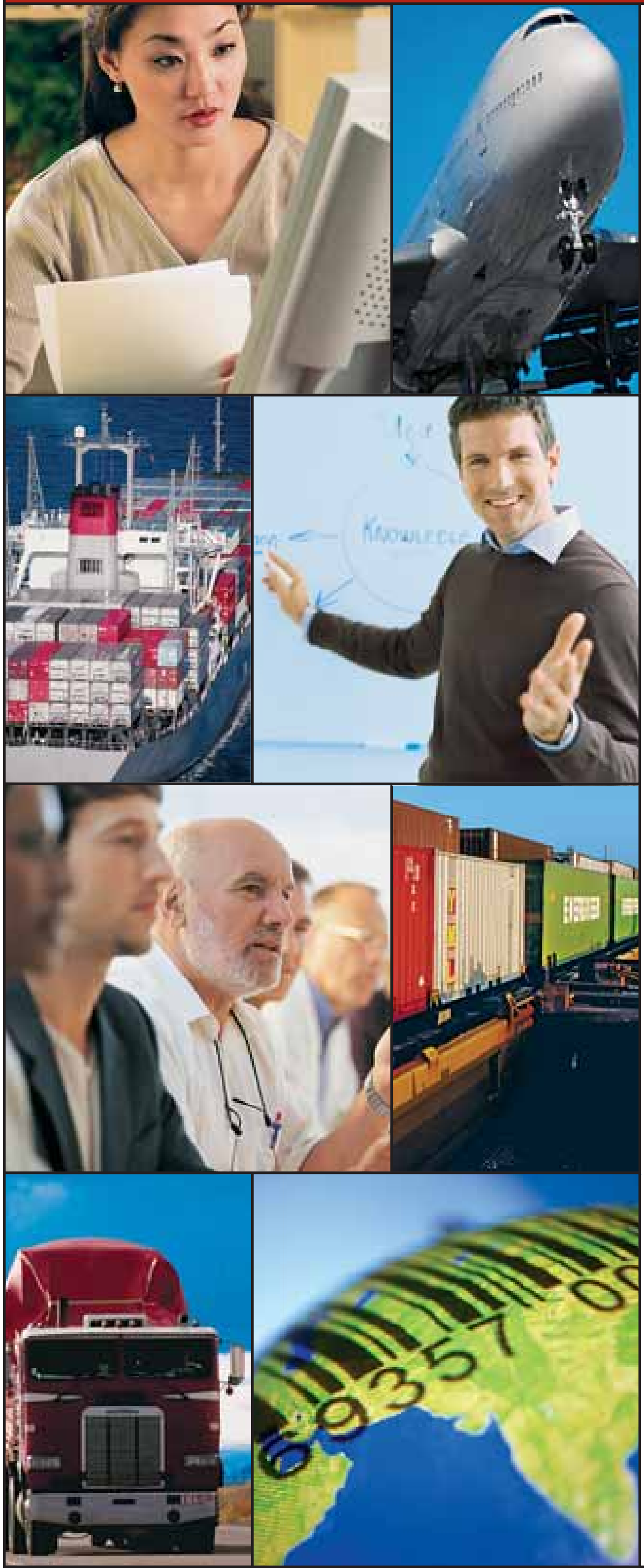

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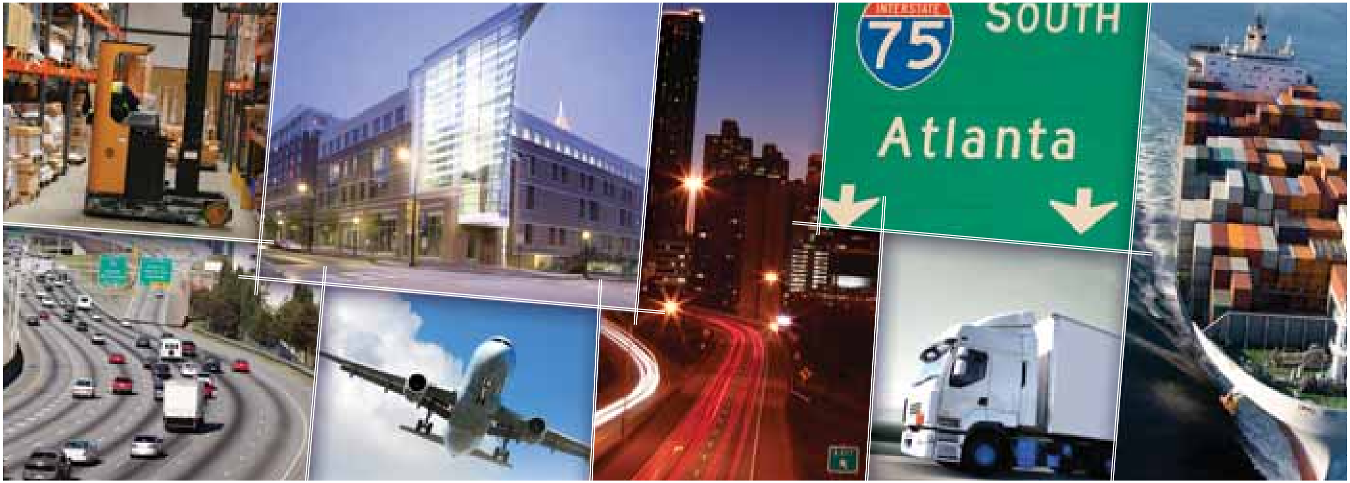

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July 14-17, 2009 (also online)
Material Handling Short Course
August 3-6, 2009
Logistics Performance, Cost, & Value Measures
August 18-21, 2009
Warehousing Short Course
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March 3-5, 2009, Inland Ports Across North America (IPANA) Annual Conference, Chicago, Ill. The fifth annual IPANA conference focuses on the growing influence and impact of inland ports on economic development, transportation and logistics advances, and best practices. The event attracts leading authorities from the public and private sectors on transportation and freight policy practices, the environment, and economic development and trade. Speakers will address topics such as the challenging state of the economy, the impact of inland ports on national economic growth, containers in the retail world, and future challenges facing inland ports.

214-744-1006
www.nascocorridor.com

March 16-19, 2009, Performance-Based Logistics (PBL) 2009, Falls Church, Va. The Institute for Defense and Government Advancement's PBL conference features best practices and case studies from those who have successfully implemented PBL. Sessions cover key issues ranging from the development of performance metrics within tightly controlled PBL guidelines, to overcoming challenges in phasing-in PBL on legacy systems.

800-882-8684
www.idga.org

March 29-April 1, 2009, Council on Transportation of Hazardous Articles (COSTHA) Annual Forum, Long Beach, Calif. The meeting prepares attendees to navigate the continually evolving dangerous goods transportation regulations and offers tours of the China Shipping (NA) Agency Company's and Matson Navigation Company's ships and terminals.

703-451-4031
www.costha.com

April 26-29, 2009, Warehousing Education and Research Council (WERC) Annual Conference, Atlanta, Ga. WERC's annual conference is the place to learn about cutting-edge trends, new technology, best practices, practical solutions, and proven techniques to measure, manage, and maximize performance. UPS Chief Operating Officer David Abney will deliver a keynote address titled "Shrink-Wrap Your Way to Greatness."

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Featured Topics & Presenters

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Regulations and their Impact on Green Supply Chain Management
Environmental Protection Agency
Carbon Disclosure Project
American Trucking Association

The Business Case for Green Supply Chain Management
Norfolk-Southern
Volvo Logistics
Northrop Grumman
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Green Procurement Strategy
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Supplier Management for Green
IBM Corporation

Environmental Strategy Development
Office Depot

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News Corporation

FRIDAY, FEBRUARY 20, 2009

Workshops

Building a Sustainable Supply Chain Management Strategy
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Carbon Footprint Modeling and Calculation
MIT
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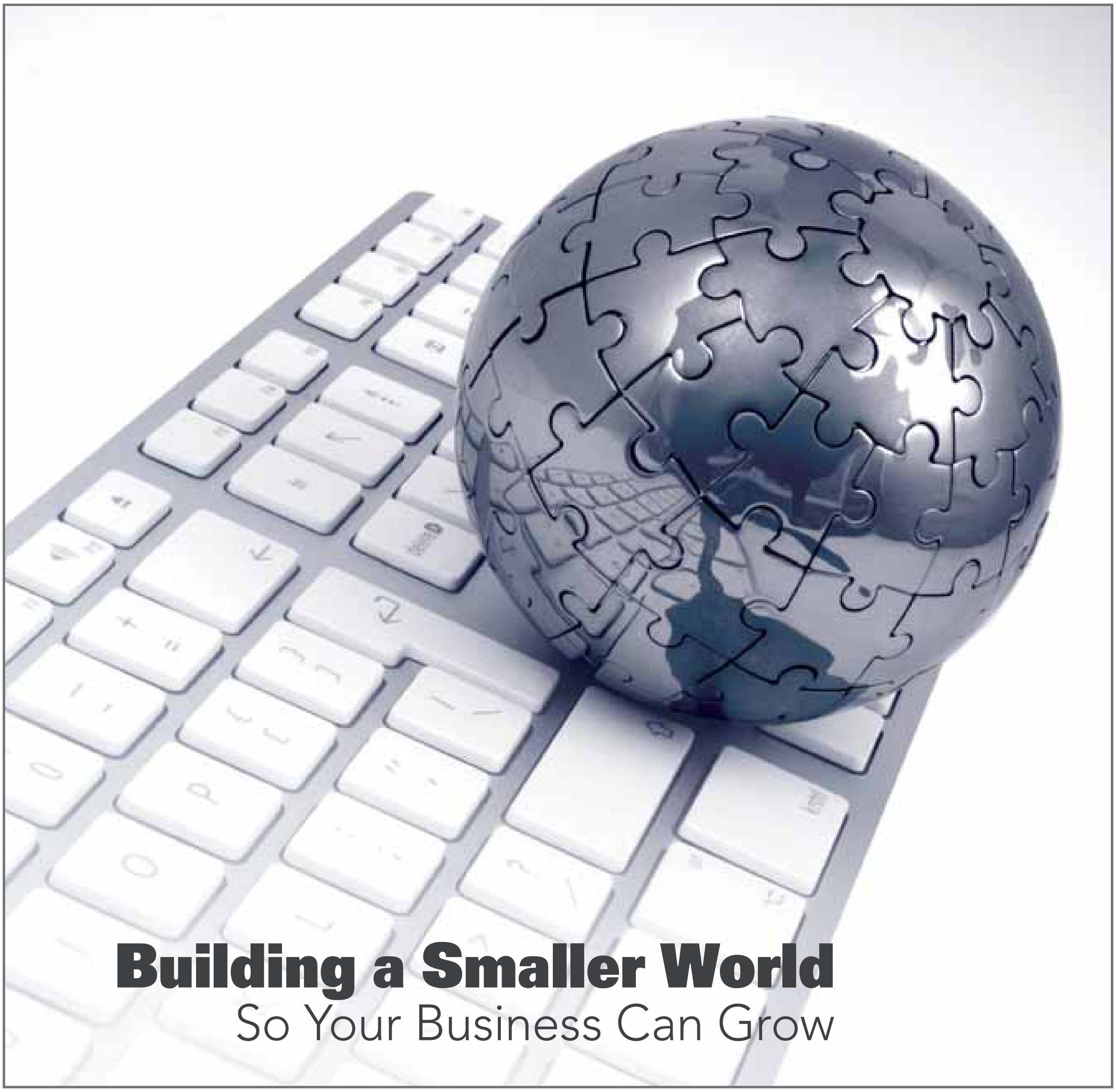

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