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Logistics, The Driving Force of Human Achievement.
Be Careful What You Ask For
Outsourcing logistics processes is all the rage today. However, some firms are electing to outsource significant portions of their supply chain without completing all of the proper preparation. It is rarely good business practice to follow others just because it is trendy.

Questioning the Global Supply — The Power of Lead Time
Globalization has become a major focus for many supply chain professionals. However, moving manufacturing to low cost countries reduces flexibility, increases lead times and makes build to order manufacturing (which should without question be the goal of any supply chain professional) difficult to impossible. Since the supply chain infrastructure you are building now may be difficult to dismantle down the road, as supply chain professionals, we need to take global sourcing very seriously.

Why Shippers Can’t Afford NOT to Convert Their Private Fleets
Private fleet operations might initially seem like a good freight management solution for companies concerned about cost, capacity and control. However, for many — particularly mid-sized companies — that simply isn’t the case. This article takes a look at six popular myths around the supposed benefits of maintaining private fleets.

Piorities in Supply Chain Design
Many executives operating regionally and globally are shifting their priorities to drive supply chain design.

A Conversation with Phillip C. Yeager
It’s difficult to find a better exemplar for innovation than Phillip Yeager. Here’s an instructive look at what differentiates leadership in logistics and transportation.

Congestion Pricing Not the Solution to U.S. Transportation Woes
Congestion pricing is touted as the cure for gridlock and pollution. But it comes at a cost to motorists, businesses and the economy. And the cost is disproportionately high when compared with the benefits gained. Adding capacity with new infrastructure funded by fuel taxes is a better solution.

Outsourcing Your Way to Competitive Advantage
This story provides a powerful illustration of how outsourcing supply chain management can not only lower transportation costs but also improve service, build on customer and supplier relations and drive competitive advantage — in some cases actually resulting in a significant increase in market share. Being willing to discard old, asset-based models and consider the advantages of new approaches can lead to tremendous opportunity and growth.

Leveraging Technology: A Strategy to Help 3PLs Add Value
The development and implementation of value-added, information technology-based services and solutions is the best way for 3PLs to differentiate themselves from the competition and reduce downward pressure on margins and profitability. However, the 2006 Eleventh Annual Third Party Logistics Study shows a significant gap between expectations and performance. 3PLs have to invest more in their systems and educate their customers on their IT capabilities to capitalize on the IT value-added services.
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FedEx Freight Canada Unveils New Facility in Toronto
Carrier Also Plans to Open Seven New Facilities Throughout Canada

FedEx Freight Canada, the newly formed subsidiary of FedEx Freight that provides intra-Canada and trans-border less-than-truckload (LTL) service, recently unveiled its new combined national headquarters and 48 dock-door service center in Toronto.

With an aggressive growth plan under way, FedEx Freight Canada also plans to add service centers in Ottawa, Cambridge, Edmonton, Halifax and Quebec City and open expanded facilities in Winnipeg and Calgary during the next several months.

“When you combine FedEx Freight Canada with FedEx Freight and FedEx National LTL, we provide a full range of complementary LTL solutions throughout North America,” said Doug Duncan, President and CEO of FedEx Freight. “We’re committed to continuing the enhancement of our operations in Canada to better serve our customers.”

Women in Logistics Initiative Launched

The Logistics Institute’s Women in Logistics Task Force recently launched a series of events across Canada. More than 600 participants — the vast majority female — participated at six launch events across Canada. The message from featured keynote speaker Angela Mondou, P.Log., “Take Action” and “Be Accountable” was enthusiastically endorsed by this audience of logistics and supply chain practitioners, who enjoyed listening to Angela’s insights from her new book Hit the Ground Leading.

In addition to the motivational leadership portion of the events, participants were asked to contribute their experiences and insights in facilitated feedback group discussions. Discussions highlighted career opportunities and roadblocks, as well as delegates’ issues and concerns. Participants were asked to share information on the skills, knowledge and education they felt were needed to succeed in today’s supply chain logistics industry sector.

Two of the principal objectives of the Women in Logistics initiative are to build community and profile women in our industry. The national launch events certainly held to those principles. “The building of this community will also lead to a stronger voice for all women in logistics,” noted Ruth Snowden, P.Log., Managing Director of the Logistics Institute, in a press release.

As an initiative of the Logistics Institute, this Task Force is mandated to explore options and create opportunities to highlight and publicize the contributions of women currently in the supply chain logistics profession. It is also charged with developing a strategy to support the recruitment of women into supply chain logistics and assist women to develop themselves as supply chain logistics professionals.

Formerly Watkins Canada Express, FedEx Freight Canada officially began operations in February this year. The company provides all-points coverage to more than 7,000 cities in 10 of the country’s provinces, as well as transborder service for shipments to and from the United States.

“This new facility establishes a strong base from which FedEx Freight Canada will quickly expand its operations across the country,” said Grant Crawford, Vice President and General Manager, FedEx Freight Canada, in a press release.

In addition to the Toronto facility, FedEx Freight Canada offers pickup and delivery service through a growing network of facilities that includes Vancouver, Winnipeg, London, Calgary and Montreal.
LQ’s mandate to provide “Ideas for Leadership in Logistics” is clearly evidenced this issue, with articles written by professionals and logisticians from America and Canada who are leading and transforming business by creating new roadmaps and definitions for leadership in this exciting field.

OUR CONTRIBUTORS

DAVID J. CLOSS, Ph.D., LQ Executive Editor. Dr. Closs is the John H. McConnell Chaired Professor of the Eli Broad College of Business, Department of Marketing and Supply Chain Management, Michigan State University. He has consulted with more than 100 of the world’s Fortune 500 corporations regarding logistics strategies and systems. He is an active member of the Council of Supply Chain Management Professionals (CSCMP).

JIM DAVIDSON, President, iWheels Dedicated Logistics, began his career in logistics at the Ford Motor Company in 1963, working in all aspects of logistics for 17 years. Mr. Davidson joined TNT in 1983, where he held various management roles, including roles in operations, staff, administration and general management for a number of different divisions. He also served as the TNT board member representing North America at their European-based board meetings. He has served on the executive of the Canadian General Motors Supplier Council and as the Executive Vice President of the ATA Council of Logistics located in Alexandria, Virginia.

BILL GRAVES, a former governor of Kansas, is President and CEO of the American Trucking Associations in Alexandria, Virginia.

JOHN LANGLEY JR., Ph.D., M.B.A., is Professor of Supply Chain Management and Director of Supply Chain Executive programs at the Georgia Institute of Technology in Atlanta, Georgia. Dr. Langley is a former President of the Council of Logistics Management and a recipient of the Council’s Distinguished Service Award. In 2004, he was honored as one of the profession’s top five logistics executives at the Richmond Events Logistics and Supply Chain Forum. He received his Ph.D. in Business Logistics from Penn State University. Dr. Langley has co-authored several books, including The Management of Business Logistics, a 7th edition textbook published in 2003. He also serves on the Boards of Directors of UTi Worldwide, Inc., Averitt Express, Inc., and Forward Air Corporation. He is also lead author of the annual study on the 3PL industry.

CLIFFORD F. LYNCH of C.F. Lynch & Associates has provided management advisory services in logistics since 1993. During the previous 35 years, he was Vice President, Logistics, for the Quaker Oats Company and President of Trammell Crow Distribution Corporation.

Mr. Lynch holds an undergraduate degree from the University of Tennessee and an M.B.A. from the University of Chicago. He is a Certified Member of the American Society of Transportation and Logistics and is a member the editorial review boards of the Journal of Business Logistics, the International Journal of Physical Distribution and Logistics Management, and Supply Chain Management Review. He is also a member of the Warehousing Education and Research Council and the Advisory Council to the Dean, College of Business Administration, University of Tennessee.

Mr. Lynch is a member and past president of the Council of Logistics Management and has received numerous awards in the field of logistics. Among them are the CLM Distinguished Service Award, the Traffic Management Magazine Professional Achievement Award, the University of Tennessee Department of Marketing and Transportation Distinguished Alumnus and the President’s Award for Outstanding Contribution to the American Society of Transportation and Logistics.

He is an adjunct professor at the University of Memphis, a frequent lecturer at other colleges and universities, an author of numerous articles on the subject of logistics and has written two books on logistics outsourcing.

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Christopher D. Norek, Ph.D., is a founding Senior Partner with Chain Connectors, Inc., an Atlanta-based supply chain consulting firm specializing in strategy, technology, training, SMB supply chain transformation and returns management. He has been in the logistics field for over 15 years both in industry, with Accenture, Kimberly-Clark, Apple Computer and CSC, and in academia as a professor at both Auburn University and the University of Tennessee. Dr. Norek has consulted for firms including Lowe’s, SAP, Amazon.com, Accenture, Office Depot, Schneider National, Cingular Wireless, The Sports Authority, Party City, Chatsworth Products Group, Titan America and Aramark Uniform Services. He has been active in publishing for journals in the field including the Journal of Business Logistics, the International Journal of Logistics Management, Supply Chain Management Review, LQ (formerly Logistics Quarterly), DC Velocity, and ASCET. Chris holds supply chain/logistics degrees from Penn State, Tennessee and Ohio State.

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Gail Rutkowski is Director of Operations with AIMS Logistics and is a veteran of more than 25 years in the transportation industry. She has experienced many sides of the industry, from shipper to carrier, from small shipments to truckloads, from domestic to international. Her experience runs the gamut from private fleet management with Quaker Oats and Belden Wire and Cable to truckload sales with C.H. Robinson to transportation management with Thomas & Betts. Ms. Rutkowski is a member of NASSTRAC (otherwise known as the National Shippers Strategic Transportation Council) and is currently president of the organization. She was selected NASSTRAC Member of the Year in 2003 and 2005. She is also a member of the Council of Supply Chain Management Professionals (CSCMP).

Robert L. Shaunnessey has been Executive Director of Warehousing Education and Research Council (WERC) since 2003 and in the distribution industry for more than 30 years. He was a founder and partner of third party logistics provider Sterling Logistics Corporation. Earlier in his career, he served as President and CEO of Records Management Services, President of Midwest Distribution for ITEL-GATX Administration for DSC Logistics.

Phillip C. Yeager is founder of The Hub Group, Inc., and has been Chairman of the Board of that organization since 1985; from 1971 to 1985, Mr. Yeager served as President of Hub Chicago. He became involved in intermodal transportation in 1959, five years after the introduction of intermodal transportation in the United States, as an employee of the Pennsylvania and Pennsylvania Central Railroads. He spent 19 years with the Pennsylvania and Pennsylvania Central Railroads, 12 of which involved intermodal transportation.

Over his many years in the transportation industry, he has been awarded many honors, including being named Man of the Year by the Intermodal Transportation Association (1991), receiving the Salzberg Practitioners Award from Syracuse University in recognition of his lifetime achievements in the transportation industry (1995), being inducted into the Chicago Area Entrepreneurship Hall of Fame sponsored by the University of Illinois at Chicago (1996), receiving the Presidential Medal from Dowling College for his achievements in transportation services (1997), receiving the Silver Kingpin award from the Intermodal Association of North America (1998) and being named Transportation Person of the Year by the New York Traffic Club (1999). Mr. Yeager graduated from the University of Cincinnati in 1951 with a Bachelor of Arts degree in Economics. He is the father of David P. Yeager and Mark A. Yeager.
Be Careful What You Ask For

Outsourcing logistics processes is all the rage today. However, some firms are electing to outsource significant portions of their supply chain without completing all of the proper preparation. It is rarely good business practice to follow others just because it is trendy.

By Robert L. Shaunnessey

There is an entire rainbow of logistics relationships — ranging from the simple transaction, such as a single spot buy for a point-to-point truckload movement, to the pot of gold relationships needed for totally outsourced supply chains. The closer you intend to get to total outsourcing, the more preparation is necessary to achieve long-term success. The cost of errors in this type of arrangement can lead to losses of both careers and millions.

There are several steps that we regularly see omitted. The first and most frequently omitted step is taking into account self-knowledge regarding your own firm. Not every partner is perfect for you, and getting an appropriate one requires that you know the culture of your own company.

Is yours an authoritarian culture, one of command and control? If so, a service provider who prefers a consultative relationship will have substantial overhead you do not require, and its managers are going to be disappointed and less than enthusiastic about the working relationship. Your best bet is a command and control partner.

How does your management respond to errors? What happens when a competitor launches a new service? If innovation and flexibility are important issues for your firm, research suggests that mid-sized privately owned partners would best fit your needs.

The strategic direction of your firm is one of the major factors that must be considered. Is there an acquisition or divestiture in your immediate future? If so, your partners must be able to respond to the changing requirements, and your contracts must allow for some flexibility. The strategic direction dictates the tasks that must be done, and your company culture combined with that of your partners determine how successful you will be in completing those tasks.

A good analogy is to examine how well you are suited for your job. Is your psychological makeup important? You bet it is! My high school guidance counselor used my good math scores to direct me to a career in mechanical engineering. My ADHD-type personality made that a disaster. The continual drive for better, faster, cheaper in logistics is a better fit. But then who knew what logistics was in the middle of the previous century?

The cafeteria list of services you receive in response to your standard request for information is inadequate for a complicated outsourcing project. You need to apply a business-type Myers-Briggs personality indicator test to your partners if you expect to live happily ever after. Well, at least for the three to five years of the contract. The personality fit between the two firms is a critical and often overlooked piece of the outsourcing program. Ethics, willingness to invest in relationships, attitudes toward continuous improvement programs and ability to act if the unexpected happens are among the areas that need to be understood beforehand.

This advice to examine your potential partner applies to the service provider side of the relationship as well. No matter how hard the capital partner is pushing for top line growth, not every client is a good client. While the requests for proposals are flowing and the fever is high, it is easy to get carried away with visions of unending double-digit growth rates. However, a significant number of those potential clients do not fit your profile range of acceptable clients and are, therefore, disasters waiting to happen.

While we are waiting for a collaboration guru to develop the business Myers-Briggs, we recommend the following. Pick some of the critical things that have happened or could happen in your supply chain operations and describe your firm’s (likely) reaction to them. Form those issues into questions that you ask potential partners as a part of your request for information process and then review how their responses would be received in your company.

If the service provider’s responses would not be acceptable in your environment, move on. You just saved both firms from the risk of a large lawsuit. If no one gives you acceptable answers, the problem may reside close to home, or you may have a set of circumstances where outsourcing will not provide the appropriate solution. If you do get responses you could work with, then they need to be drafted into the agreement you reach with the selected supplier.
Questioning the Global Supply —
The Power of Lead Time

Globalization has become a major focus for many supply chain professionals. However, moving manufacturing to low cost countries reduces flexibility, increases lead times and makes build to order manufacturing (which should without question be the goal of any supply chain professional) difficult to impossible. Since the supply chain infrastructure you are building now may be difficult to dismantle down the road, as supply chain professionals, we need to take global sourcing very seriously.

By Robert Martichenko

Building to Order and Eliminating Overproduction

If you were to design the perfect manufacturing process, there is no question that it would be a manufacturing process where you build to customer order (BTO). In this perfect world, you carry no inventories and only initiate your inbound supply chain and manufacturing processes after you receive a customer order. The brilliance of BTO is that you eliminate overproduction because you don’t order material from your suppliers or manufacture finished goods until you have a firm order. As well, there is no need for warehousing or storage of any kind as you simply flow product to the customer upon completion of the manufacturing process. In essence, this is the definition of a pull system, where the customer order triggers supply chain activities to fulfill the order, resulting in no overproduction. This drive to eliminate overproduction must be on the minds of all supply chain professionals, since overproduction is without a doubt the worst organizational waste that exists. Defined as building (or buying) more than you need or earlier than you need it, overproduction creates other serious wastes such as excess inventory, excess warehousing and excess transportation. BTO also eliminates the need for
forecasting, which in turn results in the elimination of excess inventories due to forecasting errors. Eliminating the need for forecasting is another key area supply chain professionals need to be focused on.

It’s clear that BTO is the perfect solution to a waste-free supply chain. However, BTO requires a specific dynamic to be in place to succeed: Total lead time must be less than customer order to delivery lead time expectations.

In other words, if the competitive environment states that customers expect to receive a product 10 days after placing an order, a BTO process would require you to be able to order and receive material from your suppliers and then manufacture and ship the product to the customer in less than 10 days. Although many of us will never reach the state of perfect BTO, this needs to be the stretch goal for the lean supply chain.

**Forecasting — Push and Lead Time**

Forecasting simply means that we need to guess what customers might order and therefore what we need to build or buy now in order to be prepared for the future customer order. Although there are simple to extremely complex forecasting models, no algorithm or software has cured the number one law of forecasting, which states that forecasts are guaranteed to be wrong. What is overlooked at times, though, is the second law of forecasting, which states that the longer one looks at a forecast, the more likely it will be wrong. Consequently, if our goal is to reduce our exposure to waste created by inaccurate forecasts, we need to focus on lead time reduction. To understand this, we need to review why we forecast in the first place.

Building on our discussion around BTO, forecasting is required when we have the opposite condition from what is required to build to order. Forecasting is required when: total lead time is greater than customer order to delivery lead time expectations.

If we cannot order material, manufacture and ship in less time than our customers expect from the point they order, then we are forced to forecast (guess) what the customer may want. At that point, we order material from our supply base and pre-build product in anticipation of the customer order we forecasted. The result of this process is overproduction (inventory with no demand) or not having enough of what the customer wants. This is the quintessential push system. You pre-build to forecast and then push the product into the market place. Unfortunately, this push process will never lead to business excellence. Successfully moving from push to pull requires a disciplined approach to lead time reduction. This means that as a supply chain professional, you absolutely need to be focusing on all aspects of lead time reduction. This brings us full circle to the global supply chain.

**Inbound Logistics — Flexibility and Lead Time**

Once you understand that lead time reduction is at the root of implementing pull systems (which needs to be the goal), you look at the elements of total lead time. The focus must then be to reduce each component of total lead time. Consequently, you need to reduce inbound logistics lead time. In fact, reductions in inbound logistics lead time will significantly contribute to creating flexibility in the supply chain. This flexibility will allow you to get closer to pull, which in turn will eliminate overproduction and improve customer fill rates.

Flexibility is a word that we hear a lot these days relative to supply chain management. Flexibility in the supply chain defines our ability to react when market conditions change. Market conditions can be described as the changes that take place in product and product quantity demand. For example, customers will change what products they want and in what quantities they want them. Therefore, flexibility is our ability to change with the market to meet customer demand as quickly as possible when market conditions change. The more flexible we are, the faster we can react and the less obsolete inventory we will carry when conditions change. How do you become more flexible? Reduce lead times in inbound logistics.

Take an example where a manufacturer (or distributor) has a domestic supplier that is one day away from the manufacturer. Supplier order to delivery lead time is two days. This means the manufacturer orders material from the supplier and it arrives at the manufacturer two days later. With this arrangement, the manufacturer simply needs to know what they are going to build two days out in horizon. Therefore, you can define their flexibility level as being two days. If market conditions change, the manufacturer can re-adjust on the third day. Using this same example, the manufacturer moves this supplier to a low cost country. Inbound logistics lead time becomes thirty days. Now the manufacturer is forced to determine what they will build thirty days from now in order to determine what to order from the supplier. Within these thirty days, if market conditions change, the manufacturer does not have the flexibility to react. When day thirty arrives, they will build what they have material to build, even though it may not be what the market is demanding. This results in wasteful overproduction. Which leads us to ask, Why would you do anything that is going to increase lead times and reduce flexibility?

**The Future and Lead Time**

There are a lot of good reasons for some companies to globalize. Building product in a country to sell in that country makes perfect sense. Sourcing material when it can support lead time reduction is a smart business move. However, do not fool yourself into thinking it is simply a matter of domestic or global piece price. There are significant implications for the supply chain in moving to low cost countries. Increased lead times reduce flexibility, force increased reliance on forecasting and result in overproduction, which is the worst of all organizational wastes.

While we may understand the implications of lead time conceptually, we are clearly making business decisions that ignore lead time. The challenge is that it may take years for us to realize the net effect of some of these decisions. The supply chain infrastructure you are building now may be very difficult to dismantle down the road. Consequently, as supply chain professionals, we need to take global sourcing very seriously.
Why Shippers Can’t Afford NOT to Convert Their Private Fleets

By Clifford F. Lynch

Private fleet operations might initially seem like a good freight management solution for companies concerned about cost, capacity and control. However, for many — particularly mid-sized companies — that simply isn’t the case. This article takes a look at six popular myths around the supposed benefits of maintaining private fleets.

UNLESS YOU’VE GOT THE PURCHASING POWER of a Fortune 500® company, the economics of private fleet ownership for medium-sized businesses do not justify the investment. Companies should focus on their core competencies and leave transportation and supply chain management to the experts rather than spreading resources thin and mismanaging the complex issues involved in moving freight.

Billion dollar businesses are developed using flexible shipping and logistics solutions for a reason! The majority of firms just don’t have the resources to manage costs and meet fluctuating volume demands, particularly given today’s ever-shrinking capacity due to the near impossibility of attracting and retaining qualified drivers.

Private fleet managers for these firms are simply trying...
to figure out how to transport freight from point A to point B, never mind focusing on customer service, liability, fuel costs, training, the capital costs associated with a trucking fleet and other expenses.

This article reviews some popular myths regarding dedicated transportation services and discusses why mid-sized companies are tending toward outsourcing their transportation needs.

Myth #1: Running a private fleet makes more economic sense

For some of the largest firms, that may be the case — the behemoths with the size to achieve economies of scale on costs like fuel, equipment and insurance. But for everyone else, especially mid-sized businesses, the headaches and unpredictable costs of operating a private fleet can make it unpleasant and — worse — unprofitable. Mid-sized firms can’t match the buying clout of the big guys, but they’re up against the same financial pressures as the major carriers. Not a winning proposition.

There is also that not-insignificant issue known as the bottom line. The capital costs of carrying transportation assets on the books loom large when there are better investments with better returns that can be made for most firms. If the difference between the cost of the fleet and the cost of handing it to a dedicated carrier is less than the shipper’s operating margin, the private fleet makes no economic sense at all. Add in the increasing challenges sparked by changing hours of service (HOS) regulations and Environmental Protection Agency (EPA) requirements and you have a strong argument for outsourcing to a dedicated carrier.

More threatening than most realize is the oft-overlooked issue of liability. Typical liability insurance is not only dauntingly expensive but is rendered virtually irrelevant by sky-high deductibles. At the same time, vehicular accidents account for more than a third of all wrongful death suits, and juries in the United States frequently award plaintiffs upwards of $10 million per verdict. With both insurance premiums and jury awards rising, businesses must face the fact that one major accident could spell financial ruin. Why not transfer that burden to a major carrier with the means to bear it?

Myth #2: Private fleets mean better customer service and greater visibility

Again, not so fast. Yes, private-fleet drivers run familiar routes to familiar customers carrying familiar products, and in trucks branded and designed to function as rolling billboards crisscrossing the continent. Drivers get to know the unique service requirements of their accounts and positive customer relationships develop accordingly. All that would give private fleets the upper hand over common carriers — if common carriers didn’t share the exact same capabilities.

Dedicated carriers can also assign drivers to accounts exclusively to function like regular employees of the hiring firms. Those drivers can run the familiar routes to the familiar cus-
customers carrying the familiar products just like private carriers would, and it's just as easy to outfit one trailer with company-branded graphics as it is another. In fact, many companies find that service levels measurably improve after a private fleet conversion...as does the company’s bottom line.

**Myth #3: The driver shortage hardly affects private fleets**
As we are all painfully aware, a national driver shortage is one of the top challenges facing the trucking industry today. Given the variability of our economy and the advanced average age of current drivers, the situation will only get worse. This is as true for private fleets as it is for dedicated carriers. The solution? Aggressive programs to recruit and train new drivers and retain the ones already on board.

In an industry that typically faces annual turnover rates of more than 100 percent, this is no easy task. Who better to take on the challenge than large nationwide carriers with the expertise and infrastructure to develop and maintain large-scale recruitment, training and retention programs? Common carriers are rising to the occasion with innovative programs aimed at enticing new drivers to a life on the road. Advertising campaigns targeted to demographic groups not commonly represented in the industry are widespread, and economies of scale make them far less costly than any programs individual companies could launch.

The common carriers also have the advantage of existing relationships with railroad, freight brokerage and logistics companies, often lines of business of the carriers themselves. If capacity becomes an issue, they can go to Plan B...and beyond. A private fleet, in the same situation, would face a more challenging and restricted set of options.

**Myth #4: Common carriers offer nothing private fleets can’t do for themselves**
This is a misconception that costs shippers money and opportunities to improve service every day. New technologies have opened up a brave new world for the transportation industry. From satellite communications to trailer tracking systems, shippers have options that were unimaginable just a few years ago. Better tracking and visibility cuts costs and increases customer satisfaction. Why take chances on lost or empty trailers and frustrated customers when a dedicated carrier can transform you into a true twenty-first-century shipper?

However, investing in these tools for a small private fleet would be cost-prohibitive for most firms. The capital outlay would outweigh any benefits — benefits that would accrue quickly under a dedicated carrier with the size and scale to justify the investment.

Common carriers also offer state-of-the-art supply chain engineering capabilities far beyond the reach of most private fleets. With expertise in logistics, transportation management, industrial engineering, network optimization and process improvement, they are masters of finding opportunities to reduce costs, improve service and minimize both trucks and miles. Vehicle routing and scheduling, inventory optimization and improved operating margins are just a phone call away. In the competitive global marketplace, the transportation industry serves, topnotch engineering can make a real difference in the bottom line.

**Myth #5: Running a private fleet has no negative impact on the rest of the business**
Some private fleet managers subscribe to the philosophy that if you want it done right, you’d better do it yourself. That’s fine in theory, but it can be downright dangerous in practice. After all, you wouldn’t say that if you needed a root canal — you wouldn’t go to dental school, get a license, buy all the equipment and hire a staff just to have control over the procedure.

Like dental practices, private fleets are complex operations with their own unique set of requirements and regulations. They take time, energy and, above all, money to run efficiently and at peak performance. There is no way that level of expenditure wouldn’t affect the rest of the business — the physical assets alone weigh down balance sheets and detract from a firm’s overall financial health. Shippers wouldn’t become dentists just to get a root canal and they shouldn’t maintain private fleets just to ship their freight.

There are several large carriers with dedicated shipping and logistics management as their core competencies. Choosing one of them frees up assets so shippers can invest more in the competencies of their own business.

**Myth #6: Private fleet conversion means local drivers will lose jobs**
Some private fleet managers balk at converting to dedicated carriers because they think local drivers may lose their jobs. Not so, according to industry trends. Most carriers make efforts to retain drivers already trained and knowledgeable about routes and customers. And why wouldn’t they? Safe, reliable drivers are hard to find — and safe, reliable drivers with institutional knowledge are a precious resource. Dedicated carriers assuming shipping responsibilities for private fleets are well aware of that and are motivated to take advantage of it.

**Summary**
Private fleet operations might initially seem like a good freight management solution for companies concerned about cost, capacity and control. However, for many — particularly mid-sized companies — that simply isn’t the case. Converting to dedicated carriage results in better customer service, more flexible capacity, less risk exposure and improved profits. Shippers must calculate the true cost and risk of operating a private fleet and weigh these against the many advantages and economies of scale a large dedicated carrier can provide. Once they do, they might be surprised to find that they can’t afford not to convert their private fleets.
Piorities in Supply Chain Design

Many executives operating regionally and globally are shifting their priorities to drive supply chain design.

By David J. Closs

AT LAST YEAR’S COUNCIL of Supply Chain Management Professionals (CSCMP) Annual Conference, an executive panel from the fast moving consumer goods, electronics, and petroleum industries reflected upon the challenges of designing and optimizing a supply chain in today’s dynamic environment. During executive education sessions, I have reflected on these challenges and how they have changed over time with executives from many firms around the world. While they had often not organized their decision criteria in the same format, most executives operating regionally and globally agreed with the general shift. After ending a week and a half in China with further discussions, I am even more convinced about the nature, importance and implications of the shift.

My comments this month review this shift and discuss the implications for today’s logistics and supply chain executive. The shift refers to the prioritization or importance of the factors driving supply chain design. My training and experience in supply chain design suggests that the major decision factors, in no particular order, include: 1) Demand location; 2) Labor cost; 3) Material cost; and 4) Transport cost.

Demand location refers to the geographic location and shipment profile (relative volume, size and characteristics) of the market. All other things being equal, firms would rather locate production and/or distribution centers near the consumer markets. The fact that demand in Asia, India, South America, and Eastern Europe is growing at double digit rates strongly motivates global firms to shift supply chain activities to those regions. Labor cost refers to the relative cost of production and distribution activities such as manufacturing and handling. This factor is a driver of the move by many firms toward low-cost-country production such as in China, India, and Eastern Europe. Labor cost includes direct labor rate as well as both benefits and
assigned overhead cost. Material cost refers to the total cost of the raw material and components, including both the direct and indirect cost. The direct cost represents the specific purchase cost of the material as well as the duties and packaging. The material indirect cost includes the transaction and risk related costs such as security, obsolescence, and potential intellectual property risks. Transportation cost includes the freight cost required for obtaining raw material, moving material between plants and distribution facilities, and ultimate distribution to customers and consumers.

Tax structures and tax rates have always been design considerations, particularly when selecting between alternative sites within a local geography. These tax incentives have often been done through property tax allowances or holidays. While such tax incentives have been used to attract facilities to specific municipalities within a specific region, it was not typical that they could make enough difference to substantially change the region. Of late however, tax allowances have been extended to include holidays from value-added, income, and duty payment terms. As a result, the location of production and other value added sites is now often strongly influenced by regional and national tax strategies. For example, Ireland’s use of reduced value added tax rates on manufacturing of electronics and pharmaceuticals has done much to return industry and jobs to the Emerald Isle. Similarly, Singapore has established tax advantages for goods that have value added activities completed in Singapore. The value added activities could include everything from physical manufacturing processes to inventory risk management. Major Chinese cities are employing the same strategy to attract firms or industries to their industrial parks, and their success is copied in other countries, such as Vietnam and Cambodia. Even the U.S. has witnessed increased interest in “Free Trade Zones” or “Tax Free Zones” as a motivator to attract jobs.

According to last year’s CSCMP panel, the result has been a shifting in the priorities for supply chain design. While proximity to market demand is still the primary factor (“Location, Location, Location”), the panel suggested that the order of importance (most to least important) for the remaining four factors is: 2) tax policy; 3) transportation cost; 4) production cost; and 5) raw material cost. In many cases, the differential due to tax policy often overwhelms the differences due to production or labor rates.

In many discussions with executives over the last year, I have witnessed substantial agreement regarding the veracity of this shift. This shift in factor priority offers some interesting challenges for logistics and supply chain managers.

First, it is important that supply chain managers understand the various dimensions of local, state and federal tax policy and how that may impact supply chain design. The use of incentives for property, income, value added and corporate taxes and their relative impact on various supply chain activities need significant consideration for supply chain design. As an academic, I find these had not typically been discussed in supply chain curricula and executive education. Now they need to be significant considerations.

Second, use of tax policy as a strong consideration in supply chain design introduces a number of issues for logistics and supply chain management. These include infrastructure concerns, tax policy dynamics and activity integration. Infrastructure concerns refer to the logistics and transportation infrastructure that is in place to support supply chain activities. For example, while both Ireland and China used tax incentives to attract supply chain value added activities to their countries, the transportation infrastructure was not initially able to handle the capacity required. While the Irish infrastructure is beginning to catch up, it will be a while before the Chinese infrastructure can accommodate the new level of activity. Supply chain and logistics managers need to understand the implications of these infrastructure problems and be able to communicate them with the planners evaluating the design strategy. Tax policy dynamics refers to the fact that such tax incentives may change quickly, resulting in a need to adapt the supply chain design. Specifically, the decisions based on the tax incentives are inherently long term while the tax incentives may sunset after a prescribed time or may change due to the political environment. Activity integration refers to the combination of locations within the supply chain when specific value added activities take place. For example, the tax incentive may motivate production or other value added operations or inventory risk. For example, some firms manage global or regional inventory from Singapore by having a Singaporean entity purchase product from global production operation at the standard production cost and then resell it to markets around the world, resulting in the profits being generated in a tax preferred environment. While there are certainly limits in a firm’s ability to manage the location of global profits, such strategies can make a significant impact.

Third, since tax incentives and transportation cost have an increasingly important role in supply chain design, logistics and supply chain managers need to develop a deep understanding and awareness regarding their dynamics and interactions. Specifically, what is the relative impact of value-added income, property, or income taxes on specific supply chain activities? Similarly, changing transportation cost resulting from capacity congestion, lane imbalances, and mode shifts can be an incentive for a change in the supply chain network design. These challenges call for the enhancement of transport cost dynamics and inclusion of tax policy implications in supply chain academic and management education. These are two topics that not many supply chain managers have much knowledge about today. Individuals involved in supply chain design need an in-depth understanding of the relative impact of transportation and tax incentives and their dynamics based on policy, fuel volatility, congestion and capacity. In an era of increasing congestion and governments looking for employment and growth, it is likely that more locales will consider these strategies as a means to attract jobs. It is important that supply chain and logistics managers begin to develop this understanding to accurately evaluate, compare, and explain the relative trade-offs.
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A Conversation with Phillip C. Yeager

Chairman,
The Hub Group, Inc.

It’s difficult to find a better exemplar for innovation than Phillip Yeager. Here’s an instructive look at what differentiates leadership in logistics and transportation.

LQ: I believe you began your career at the railway. What prompted you to begin your career in the logistics field and what are some of the milestones in your career?

Phillip Yeager: The basic reason that I left the railroad, which was the Penn Central, (The Pennsylvania and New York Central Transportation Company was formed by the merger of the Pennsylvania Railroad and the New York Central Railroad in 1968) was that I didn’t feel that I was getting positions that were sufficiently rewarding. I was the assistant director of the railway, in various capacities. I felt I was second-best in terms of the level of these positions or the roles I had at the railway and I hated that. I wanted to get involved at a more senior level in a company. When I decided to leave the railway in 1971, I had spent 19 years there, 12 of which involved in intermodal transportation.

I decided that I would start a company and that it would be the best company in the intermodal business. So my wife and I moved from New York to Chicago because Chicago is the hub of transportation, and this is where my big competitors worked.

This move made the situation much more difficult in retrospect, but starting this company was something I thought I was capable of achieving. I had a wonderful wife. At the time, she was a legal secretary. She was a very efficient person, and I knew she and my family would back me in this endeavor. We had little money, and we were very cautious, as well as very conservative. I guess that’s been a pattern throughout my life, to be conservative. This is a great advantage in some ways. You must also have discipline and follow it through.

However, being conservative can also it can impede your growth later in life, when your company develops to a point where this conservatism does not help the company progress. In fact, this may have been the case when we reached a point where we were by far the largest intermodal marketing company.

In order to take the next step, we went public — to help develop the company’s recognition and profile and to contribute to a dependable future for all of the people we had brought with us during our first years. That was in 1995, and we recognized that there were many people in our company who deserved part of the profits and the value derived from the money that would be received from going public.

My son David, who was 43 at the time, was ready to take over, and we made him our company’s CEO. He had been with the company since he completed college and had done a great job; he had opened our hub in Pittsburgh and our hub in St. Louis. Clearly, he was ready, and our younger son, Mark, was getting ready to contribute to the company as well. I could see that this was the time to make the changes to take the company to the next level.

There were distressing personal circumstances at the time as well. I had lost my wife, and this was very difficult for me and our sons. In this context, however, we took the company public. It was a very positive and important event. We had a network of 29 hubs when we went public. We also sold off some parts of the company before they announced the IPO.

We had an IPO and then a secondary offering a year and a half later. Both were very successful because we had had a 25-year record of moving up and improving our profits, plus the business practices of the people we had with us. We tried to bring the best people with us, and we really had — and have — in my mind, the best people in the intermodal business. Today, we’re developing other phases of our business, which encompass the logistics and the brokerage parts of our business. So we’re a company that is very young, and strong, and it’s getting stronger. We are growing, and we feel there are many things in addition to what we are doing today that we will be able to do in the future.
LQ: What have been the most rewarding and inspiring things to you in this industry over the years?

Phillip Yeager: Seeing the growth of our company and the young people that came into our business to start hubs, and their professional development. This has been very rewarding. Most of them had only sales experience, not overall business acumen. But they joined us and built their own company. They were part owners; I think that was one of the best things we ever did with the company, to make it similar to a franchise, whereby the ownership was there, in the field.

As I look back, I realize this produced some interesting things. We did not supervise the people who joined us. We expected them to be the best. This was the primary criterion. The second criterion was “make money,” because you must make money to grow a company. I think that’s the most rewarding element — to see these young people grow in skill. Their ethics were very good. Not surprisingly, we also had a few little problems along the way. This is natural. But we took care of those things, and we always gave our customer the very best we had, and I think that was one very important characteristic common to all the young gentlemen who came into this business.

LQ: As partial owners of your operations, these people were stakeholders. Could you elaborate on this point?

Phillip Yeager: They were individual companies that were subsidiaries of our company. They were shareholders and part owners, normally about 25 percent, with their investment in the company’s stock. We also tried to bring in people with intermodal experience, not just good sales experience, and made a point of emphasizing the value of good intermodal experience in recruiting the right people. We had a lot of husband-and-wife teams; of the first 20 hubs, 15 were husband-and-wife teams. Generally, the women did not have much knowledge of transportation, but they worked very hard in other areas and helped their husbands to work hard because they wanted their business to be a success. These teams gave it everything they had.

LQ: Could you single out one or two elements of leadership that you consider of paramount importance in this business?

Phillip Yeager: I think of value of the individual in this context; we called them principals, rather than presidents, because they owned part of the business. These principals were known for their hard work, their ethics, and the desire and passion to make their company get better and better. A lot of times you see people who are successful, and they get to a certain point when they don’t have a desire to go further and to get better. These young men and women had that desire. I always used to say, when we were talking to people and bringing these young men in, that this is the crucial thing: if you want to be successful, you must work harder than you’ve ever done in your life. And in the case of husband-and-wife teams, they’re going to work together harder than ever before. I emphasized from the start that it’s important to never forget your family but that people must be dedicated to working hard.

And when you as part owner reached a point where you would be hiring people, I recommended hiring people on that basis — their desire to succeed, their work ethic and their desire to help the customer. These things will make you successful. And we expected you to be successful; within a year we expected you to be the second-largest and second-best intermodal marketing company in your area. The next year, we expected you to be the best. These are the things we strove for. We set these goals and expected you to achieve them. If you were not achieving them, I wanted you to talk to me about it. I think these were the golden rules.

LQ: You selected these teams and mentored them to perform to very high standards. When they were measured against these baselines and they weren’t where you wanted them to be, how did you proceed?

Phillip Yeager: Naturally, there were challenges, but these situations were corrected. When people couldn’t live up to what we considered our most important requirements, we simply did not continue to work with them. We wanted people with a desire to succeed. They had to be successful. We had only one situation, with a Hub Group hub in Columbus, where we had to close the operation down. I had picked the wrong man; my wife had even told me so when we first met him. If there was a problem, we took care of the vendors, and we took care of the shipper, no matter the circumstances.

On the other hand, we have had some wonderful people. There were young men who came into our company and made and fulfilled some incredible commitments. For example, one fellow told me that he would eliminate all debt within a year. Amazingly, he achieved this objective. These were memorable things, the happy parts of the business. We also had our disappointments, but we took care of them.

LQ: At a symposium in Chicago last year, one of the keynote speakers asked the delegates, “How many of you would put your hands up and say you’ve made some mistakes over the last year?” Many of the executives in the room raised their hands. The speaker expressed the view that if you haven’t made some mistakes, it’s likely your company has not been very innovative. How have you encouraged innovation and yet maintained your conservative approach to business growth?

Phillip Yeager: One of the most important lessons is learning not to bite off more than you can chew. In other words, in being conservative when we were expanding, we didn’t start off with 15 or 20 offices, or try to buy 15 or 20 companies. We started new offices at a rate of one to three each year. With this approach we could monitor the new companies and help them where they needed assistance to develop.

One of the most noteworthy things we learned was that you cannot substitute your knowledge for their knowledge; our principals had to make their own decisions in the field. We told them that if they had a problem, it was important to talk to us. Often I would answer our principals by asking them how they might resolve the problem. Nine out of 10 times they came up with the exact same answer I’d have given. On occasion, we would caution them, normally in the case of someone who was stepping out and was doing something that we felt was unlikely to be successful. We did have to curb some of that kind of energy. After all, all of these gentlemen were young and very energetic, and few of them had business experience. We felt they would grow into these business positions — and that’s what they did.
LQ: There is a view that tumultuous circumstances are better than stable ones to drive innovation in the supply chain. If a company has a supply chain that has been built on thousands and thousands of sound and informed decisions, why would executives want to make any departure from the status quo in order to change their supply chain or business? In the case of The Hub Group, what was the greatest impetus to transform your business when you went public?

Phillip Yeager: I can tell you that this is what happened to us and how we approached it. For the first 25 years of the company’s business, our company enjoyed prosperity and significant growth. Twenty-nine hubs were established, comprising a network of hubs that were completely independent. It was clear we were the top intermodal company, and nobody doubted this point. Even my competition couldn’t doubt it. Clearly, we were very successful. We were all doing very well, both personally and professionally. However, we felt that we were not accepted by many large companies as a partner because of our business model. For example, they couldn’t tell if we were going down the tubes.

So what did we do? We decided to go public. This was the best way to bring our company to the public’s attention and gain the corporate recognition that we required. After we went public, we found that there were a lot of things that we didn’t understand about the market and the marketability of our company.

At that time, we found that we needed to develop the ability to present ourselves well before the public. As a result, we began to change the company. We bought out all of the hubs and, after a few years, we centralized our operation. There were some bad feelings surrounding this move to centralization. These young men were out in the field, and they wanted to continue to make their own decisions. What we found, though, was that we were competing against huge companies, much bigger than us. We were faced with companies the size of J.B. Hunt and Schneider, which are very aggressive and well-run companies. In this context, we had to adapt, and eventually we completely reorganized our company.

Prior to our company’s reorganization, we had the view that everyone was an expert in everything. As we evolved, we found that logistics and transportation were becoming forces with new levels of requirements and sophistication. In transportation, for example, there were times back then when we could have taken even better care of our customer’s needs. All the people in our company who made decisions regarding logistics practices or brokerage decisions primarily knew the intermodal business. That was very characteristic of our company for almost 25 years.

A few years ago we made some big changes. We started to bring in people from the trucking industry. Trucking was not then a core competency. Later we became more international, and we had to bring in international people to teach us what was necessary to operate internationally. We made these changes and set up a department in international business and then took the same kind of steps to develop our company’s logistics expertise. We started to bring in people with logistics knowledge. I think those were the big things, the big changes in our company.

We also centralized our financial resources and found this was every effective. We thought for many years that it was best to administer our company’s financial resources locally. For example, our network of hubs had previously collected monies owed to them locally. In any company, cash flow is very important, and if you’re not collecting your money in a timely way, you can get into big trouble quickly. I think the centralization and reorganization of these resources, which took place only two or three years ago, have been a tremendous success.

Instead of having the person in charge of a hub also be the head of brokerage, logistics, intermodal and everything else, we centralized these areas of expertise and reorganized. For example, if we had a person in St. Louis who was a leader in logistics practices, or there were others who specialized in trucking in other cities, they were now able to focus on these specific areas of business. This was a big change in our company, and it happened only three years ago. We’ve had a tremendous overall improvement. We had a few people who left our company because of the scope of this transformation. We didn’t want them to leave, but they felt it was necessary. I still talk to an awful lot of people in the field. I don’t travel like I used to, but I still talk to many of them, and I could see their attitude changing. Initially, many people appeared to be against this kind of change. But they have since changed their minds, and stayed with us. With regard to those people who couldn’t make this change or didn’t want to, we hated to lose them. Good people are what made this company a great company.

LQ: The next two questions were prepared for LQ by Tom Menzer from the University of Tennessee and David Closs from Michigan State University about corporate performance. As you review your relationships with your customers who have outsourced activities to your company, what do you think are the characteristics that differentiate the successful relationships from the less successful ones?

Phillip Yeager: I think the most important aspect of growing a relationship with customers is, first and foremost, that they must have confidence in you. Your reputation is so important, your ethics and your past record. When you sit down and talk with people who are potential customers or existing ones, I think you have to show you have experience in the situations that they’re asking you to manage. I think experience and reputation are the two really big factors in getting a relationship started. Then you must produce. If you can’t produce, you’re not going to be around very long. You must do what you say and say what you do. I think that’s very important.

LQ: Of the major criteria used by your customers to evaluate outsourced proposals, which criterion do you think they rank most highly? Would it be service, price or technology?
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Phillip Yeager: You know, they all meld together to work. You must have all three of those elements, and they must be at the level that the customer requires for that particular part of their supply chain. Each company has different needs, and that’s what makes it so very complicated. You can’t promise the customer something that you can’t produce because, as I said earlier, you just won’t stay around very long.

We have attempted to take on some logistical programs that we found were too big. We weren’t ready for them. We are still a young logistics company, but we’ve gained so much experience in that area that we’ve been able to make the adjustments, and people today are doing excellent work in this field. In the first three or four years in logistics, we lost our tails because we went in without a comprehensive understanding of what the shippers were asking us for. Perhaps this was due to the fact the shipper was trying to gradually ease into a program. However, by the time we finished such a program, we were pouring resources from our company into the program without remuneration from the customer that was necessary to cover our costs. Unfortunately, despite these extra resources, we were not providing them what they needed. We lost those companies as customers, and this was just a few years ago.

Today, we’ve gained so many new companies in the logistics field. But size-wise, it’s so important that you know what you can bite off. You have to know when the customer asks you to do something whether you can or cannot do it. Tell the customer if you can’t do it; so, they can get other resources or you can work toward alternative solutions. But you cannot fail to deliver on what you have promised a shipper.

LQ: This is a very profound point. What are some of your insights on service provider performance measurements? I often hear the comment that people in this industry don’t draw a baseline to create an alignment of expectations.

Phillip Yeager: I believe we are fairly advanced in intermodal performance metrics. We monitor, I think, approximately 40 major lanes with the four major railroads. We generate statistics each month and give the shippers the benefit of these reports.

LQ: If you had the ear of the government and you could make three wishes that would most positively impact our industry, perhaps in terms of legislation, what would they be?

Phillip Yeager: I think that my primary concern, which relates to a very important segment of our business, is that the intermodal sector and the railroads need help in their infrastructure. The United States, as a nation, must help the railroads. And I don’t mean give them the money. I mean give them the opportunity through tax credits or low-cost loans to rebuild their infrastructure.

A lot of people don’t realize that in 1975 we had almost 80 Class A railroads. Now we have six. Before deregulation [through the Staggers Rail Act of 1980], the railroads were all going bankrupt. We were heading very dramatically toward the government taking over the whole railway system, which would have been a total disaster.

But the deregulation in 1980 gave the railroads the opportunity to run themselves on their own instead of based on the government’s expectations, which had compelled them to do things that they knew were wrong or they knew were killing them by needlessly heightening their costs. I would hate to see, more than anything else, a return to regulation. Reregulation would destroy the railroads. But there’s a fairly large group of shippers who are angling for this today, and I hope that Congress will understand the needs of the railroads and help them to improve the railways’ infrastructure.

LQ: At the Council of Supply Chain Management Professionals (CSCMP) annual conference in San Antonio, in 2005 (cscmp.org/wp/Events/ViewConference.asp?EventID=7909), Matthew Rose noted that the railways are still very regulated in many places and that people fail to recognize this fact.

Phillip Yeager: What happened during deregulation was that the railroads began to reduce their costs. They had to do this to survive; they either tore up track or they did not continue to spend the money on their infrastructure that they needed to.

Just to give you an example, when I started in the intermodal business in 1959, we ran the trains between Chicago and New York in a 24-hour cycle. Today, the best trains run in that corridor on a 36-hour cycle. When I was with the Penn in those years, they used to run it in a 15-hour cycle — ahead of the Broadway LTD, which had a 16-hour schedule. That’s how fast they can run it. But to maintain this schedule, you can’t have slow freight trains in front of you. What happened is the railroad tore up the sidings so that they could no longer put those slower freight trains over that corridor.

The railway companies are spending billions of dollars today to get back the sidings they need to run the freight trains again. And in intermodal, companies are getting some very big chunks of money so that they can double-stack on all major rail lines and get the clearances they need with regard to overpasses and so on. Recently, intermodal companies have received very substantial amounts of money from the states of Ohio, West Virginia and Virginia to enable the movement of fast, double-stack container trains between the east coast and Midwest markets, from Norfolk all the way to Chicago.

There are some very nice things happening with the government recognizing that the Alameda corridor [a fast rail cargo line that links the ports of Long Beach and Los Angeles to the transcontinental rail network] was a tremendous success. People were saying, “We didn’t have a peak,” but the Alameda corridor helped them avoid the peaks and congestion at the ports. These two ports changed their methods and helped avoid the peak-type situations that we had during the last few years there. Those ports were in terrible shape, but they worked out their agreements with their unions and provided 24-hour service, which is what they really needed. Before, they had the capacity, but they couldn’t work the terminal or provide the hours that were needed during the peak periods.

This goes to a very broad statement, which is that people are starting to understand the needs of the various vendors and shippers who are supporting these things. You know, over the years, I’ve seen a lot of negotiations between shippers and railroads and shippers and intermodal companies, which have often been contentious. This is not the case anymore. They’re talking, they’re asking good questions, and they’re working together. I think that’s one of the most important things that is happening today.
YEARS AFTER EUROPEAN AND ASIAN governments first imposed road pricing schemes as a means of reducing congestion and alleviating pollution, the United States appears poised for its own misguided attempt to utilize congestion pricing as a solution for growing transportation woes.

The premise is that congestion pricing will give motorists better road access, for a price. In many instances, however, congestion pricing does not markedly reduce congestion; it merely raises revenues — or taxes. Congestion pricing increases cargo transportation costs and hurts the economy. And higher manufacturers’ and retailers’ operating costs mean higher costs to consumers for everything from gasoline to clothing to food.

Adding capacity with new infrastructure funded by fuel taxes is a better solution. Motorists have already paid taxes to use the roadways. And fuel taxes are a much more efficient way to fund the new infrastructure that can effectively reduce congestion.

Proponents of congestion pricing say those who don’t want to pay or cannot afford to pay increased commuting costs have other choices. Making all drivers pay the same tax to receive the same service, however, is only logical if every vehicle operator has the ability to change his or her driving behavior. For motor carriers, this simply isn’t the case.

Given the just-in-time delivery system that services a customer base expecting goods to be on store shelves when consumers are ready to purchase them, truck drivers do not determine delivery times. Shippers do. If the trucking industry could avoid congestion by shifting delivery times and operating at night, it would already have done so without needing any new incentive.

Congestion pricing merely stands as a new tax to further limit an industry...
that already operates with extremely low profit margins. As a result, if congestion pricing were introduced, trucks undoubtedly would shift from tolled bridges and tunnels to untolled routes and other roadways outside of the congestion zone boundaries.

At its core, congestion pricing is designed to change driving behavior. However, if there’s no change in driving behavior, the promised benefits of congestion reduction and pollution mitigation will not materialize.

Even in London, home of the model urban congestion pricing scheme, new reports show that congestion is just eight percent below pre-program levels and continues to rise—and this is after spending nearly half of the $14 per vehicle charged for entering the city’s center on overhead. Motorists’ right to travel freely is also curtailed. Motorists in London complain of an invasion of privacy from video cameras and tracking devices, and residents of neighborhoods near the city complain of increased congestion.

If London is anything to go by, then U.S. cities that impose congestion pricing are doomed to repeat its mistakes, spending higher fees only to witness a dismal return—in addition to potential declines in commerce, manufacturing and retail sales.

The New York City proposal to charge motorists for driving into Manhattan is being touted as a cure for gridlock and pollution. But in reality, such pricing schemes are unfair and ineffective and ignore our real transportation needs.

Under New York’s recent proposal, trucks would be charged $21 per day and cars would be charged $8 per day to drive into Manhattan below 86th Street. That’s on top of the city’s already expensive parking fees.

Ultimately, motorists would pay $400 million for a mere 6.3 percent reduction in traffic. The cost is disproportionately high when compared with the benefits gained. Few would consider it a good rate of return for the investment.

New York City’s intentions are good. Like many parts of the United States, its transportation networks are strained, and the state is searching for an innovative solution to its problem. Across the United States, travel on the nation’s highways has nearly doubled since 1980 as the economy has grown. Yet the highway system has only been expanded by about three percent over the same period. The outcome is wasted time and energy.

Even the U.S. Environmental Protection Agency has called congestion pricing “relatively risky to implement,” because people would have to pay for a service they were previously getting for free. Many people would rather have congestion than pay more, and it’s hard to predict how much emissions would be reduced.

Few would argue with the idea that something must be done. But congestion pricing comes at a cost to motorists, businesses and the economy. Moreover, the trucking industry believes the federal government must take a lead role in identifying systemic problems and working with individual states to fix them.
We do the math.

\[ \Delta 3PL = \]

\[ \frac{(profitability + service)^2}{innovation + people + technology} \]

= Wheels Group

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Outsourcing Your Way to Competitive Advantage

This story provides a powerful illustration of how outsourcing supply chain management can not only lower transportation costs but also improve service, build on customer and supplier relations and drive competitive advantage — in some cases actually resulting in a significant increase in market share. Being willing to discard old, asset-based models and consider the advantages of new approaches can lead to tremendous opportunity and growth.

By Jim Davidson

AS PRESIDENT OF A LOGISTICS company, of course, you’d expect me to have a lot to say about outsourcing. After all, I represent the hired guns — the transportation specialists that companies such as yours recruit. But those who choose to work with us know we do more than just deliver the goods; we partner with companies to improve their performance.

Outsourcing is the way of the future. It’s a growing business practice that is quickly separating the leaders from the followers. Those companies that outsource all or part of their supply chain management activities to a 3PL firm are able to reduce their transportation costs, operate more profitably and gain competitive advantage — often even stealing market share from the competition.

To prove my point, let me tell you a story.

In the late 1990s my firm (not the one I’m with now) was invited by a Fortune 100 company to develop a new strategy for distribution of their product. This was a top five global brand, a consumer product sold in every country of the world in almost every retail setting imaginable.

The company was a logistic supplier’s dream candidate for outsourcing. They were heavily invested with assets and employees. They had their own traffic department and owned, on a global scale, their own distribution centres, their own tractors and trailers and their own maintenance facilities and employed their own drivers. Their distribution channel was completely internalized. From their door to the retailer’s shelf, every stage of distribution was internally owned and controlled. Consequently, their distribution cost was approximately 24 percent of their gross revenue, very high relative to the production cost of their product. The perfect challenge lay before us.

Our champion within the company was the CFO of the Canadian branch; the commitment to outsourcing was made at the highest levels. Middle management knew we were there but didn’t know why. And they weren’t going to find out until the time was right. All those involved in our “plot” were sworn to secrecy with a hidden agenda to initiate a new primary distribution channel. We went about setting up a pilot program and we were instructed to begin in Atlantic Canada.

My firm was given license to completely replace the existing supply chain, which included employees, drivers, equipment, maintenance facilities and distribution centers, as well as inside sales, outside sales, merchandising in the stores, installation and maintenance of vending equipment (where applicable) and banking of monies collected.

To limit risk and minimize the initial impact on the company, we were directed to build and test the new model in a small geographic area, specifically, Prince Edward Island. Once in place and generating the targeted results, the program could be expanded to other areas of Atlantic Canada and, ultimately, the rest of the country.

You can imagine what a huge step this was for the company to take. As the program progressed, not only did they sell off assets, they severed union employees — a difficult and challenging undertaking and one that signaled the depth of their commitment to our program.

Before long we were getting the results that we knew were possible. To start with, we were able to execute all distribution activities using only 12 peo-
ple, compared to the previous 23 employees. We cut the company’s distribution cost in half, a significant monetary gain in addition to shedding all assets associated with product distribution. True victory was declared when a survey (conducted a year after our program was launched) indicated a 12 percent increase in market share. That’s a 12 percent share taken directly from their major competitor! Needless to say our pilot program was a success and quickly expanded to include (in stages) Halifax, southwestern Nova Scotia and New Brunswick. Success was repeated in these districts as we rapidly became much more efficient at distributing this product than the company that made it.

Two years into the program we had proven our worth and were anticipating a move westward into Quebec. Instead, everything came to an abrupt halt: In a surprise move, the American parent company bought controlling interest in our Canadian client and within two weeks terminated our contract. Without even considering the gains that were made, the parent company reversed all that had been accomplished. With one huge step backwards, they bought back all the assets, hired back their employees and went back to the old business model. Might I say they also re-doubled their transportation cost and lost all efficiencies that had been gained by outsourcing their supply chain to our firm.

We were stunned. There was nothing we could do, however. The parent company had their reasons for reverting to their past. Their model needed to be asset dependent, regardless of the consequences.

This story powerfully illustrates the pros and cons of outsourcing — all within the same company over a relatively short period of time.

Despite their unpredictable reversal of fortune, the Canadian company clearly had done everything right. The decision and commitment to outsource was made at the highest levels of the company — in the boardroom, not in the shipping department. The decision was strategic not tactical and garnered results that were universal not isolated. Our champion sensed that by partnering with us, a reputable 3PL supplier, they could go well beyond lowering transportation costs. They could also improve service, build on customer and supplier relations and drive competitive advantage beyond the popularity of their product.

As this company’s experience indicates, working with a new model can lead to tremendous opportunity and growth. Clinging to an old-fashioned business model often leads to increasing costs and diminishing returns. I’m reminded of Lee Iococca’s comment, “The most successful businessman is the man who holds onto the old just as long as it is good, and grabs the new just as soon as it is better.”

Outsourcing is about the realization that there’s someone outside your company who can manage your supply chain better than you can manage it yourself. Given my years of experience and the dynamic nature of our business, my sage advice is to stick with your core business and let the logistics experts manage your supply chain. Chances are they will find a cheaper, more efficient way of delivering the goods. By letting the experts drive down your transportation costs, you’ll gain distinct advantage over your competition — and maybe even gain a percentage point or two of market share at their expense.
Leveraging Technology: A Strategy to Help 3PLs Add Value

The development and implementation of value-added, information technology-based services and solutions is the best way for 3PLs to differentiate themselves from the competition and reduce downward pressure on margins and profitability. However, the 2006 Eleventh Annual Third Party Logistics Study shows a significant gap between expectations and performance. 3PLs have to invest more in their systems and educate their customers on their IT capabilities to capitalize on the IT value-added services.

By Christopher D. Norek and C. John Langley Jr.

The Challenge to Provide Value Added Services

THROUGHOUT THE EVOLUTION of the third party logistics marketplace, 3PL providers have provided great value for their clients through the management of asset-based logistics services such as transportation, warehousing, shipment consolidation, cross-docking and customs brokerage. While these fundamental capabilities are available from almost every 3PL, whether large or small, how companies can differentiate themselves in the marketplace is a question that is of great relevance and concern to all 3PL providers. Coupled with the fact that many 3PLs are viewed by their customers as providing “execution-based operations,” the key question is what kinds of value-added services they can develop to further meet the logistics and supply chain needs of their customers.

Asset-based services such as those referred to above are frequently seen as a commodity. As with most services that become commodities, it is difficult for 3PLs to price these services to sufficiently enhance revenues and increase margins. Alternatively, when 3PLs are able to design and offer services that create value for their clients and customers in unique and useful ways, customers are more willing to pay for these services, and 3PLs are less likely to experience downward pressure on margins and profitability. One effective way for 3PLs to accomplish this is through the development and implementation of value-added, information technology-based services and solutions. Through the development and leveraging of IT-based services, 3PLs and 4PLs are able to differentiate themselves from the competition. This approach will become more prevalent as customers begin to view 3PLs and 4PLs as leaders in the area of IT-based services.

An Area of Value-Added Opportunity for 3PLs: Technology

Essentially, there are three ways in which IT-based services can be of value to 3PLs and their customers:

- **Improve 3PL operations and planning** – These IT-based services mostly impact 3PLs in ways that would be internal to the 3PL and are largely/somewhat transparent to client organizations. Examples would include ERP systems to support 3PL operations, workforce planning and logistics optimization.
- **Facilitate 3PL relationship with clients** – These services affect the activities being conducted by 3PLs that are in direct support of the relationship with its clients. Services of this type would include TMS and WMS, tracking/tracking and event management, yard management and radio-frequency identification (RFID).
- **Integrate the business functioning of the 3PL with the business functioning of clients and customers** – This category includes IT-based services that link the business

<table>
<thead>
<tr>
<th>Functionality</th>
<th>North America Currently Used</th>
<th>North America Future Needs</th>
<th>Europe Currently Used</th>
<th>Europe Future Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warehouse/Distribution Center Management</td>
<td>65% 17%</td>
<td>69% 13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Web-Enabled Communications (3PL-User)</td>
<td>61 28</td>
<td>57 30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visibility Tools (e.g., tracking/tracing; event management)</td>
<td>60 29</td>
<td>62 25</td>
<td></td>
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<tr>
<td>Transportation Management (Execution)</td>
<td>55 21</td>
<td>72 14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation Management (Planning)</td>
<td>31 32</td>
<td>44 26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier Relationship Management (e.g., procurement; payables)</td>
<td>30 26</td>
<td>21 27</td>
<td></td>
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</tr>
<tr>
<td>Customer Order Management</td>
<td>25 21</td>
<td>26 18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collaboration Tools (e.g., inventory levels; production schedules)</td>
<td>25 35</td>
<td>24 33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet-Based Transportation/Logistics Exchanges</td>
<td>23 31</td>
<td>22 39</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yard Management</td>
<td>22 16</td>
<td>22 9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply Chain Planning (e.g., forecasting; inventory planning)</td>
<td>19 30</td>
<td>13 25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Relationship Management</td>
<td>17 25</td>
<td>16 21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RFID (radio-frequency identification and asset tracking)</td>
<td>13 57</td>
<td>16 55</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: 2006 Eleventh Annual Study, Georgia Tech, Capgemini LLC, DHL, and SAP.
processes of 3PLs and customers, and which facilitate true collaboration between the business activities and functions of 3PLs and customers. In addition to the compatibility of ERP systems between 3PLs and customers, services of this type include collaboration tools (e.g., procurement; payables), customer order management, collaboration tools (e.g., inventory levels; production schedules), supply chain planning (e.g., forecasting; inventory planning) and customer relationship management.

Based on data from the 2006 Eleventh Annual Third Party Logistics Study sponsored by SAP, approximately 20 percent of 3PL users identify IT-based services among the services they receive from their 3PLs. Exhibit A1 indicates percentages of 3PL users in North America and in Europe who currently receive specific IT-based services from their 3PLs. Also indicated for each of these geographies are the percentages of 3PL users who indicate that specific IT-based services will be among “future needs.”

Based on the information contained in Exhibit A1, there is great opportunity for 3PLs to more fully serve their customers through the provision of IT-based services relating to visibility, collaboration and customer relationship management.

Also based on findings from the 2006 Eleventh Annual Third Party Logistics Study, IT capabilities are seen by customers as a necessary element of overall 3PL provider expertise. In fact, over 90 percent of respondents who were 3PL users felt IT capabilities are important. In addition, it was found that in 60 percent of the 3PL vendor selection processes, a 3PL provider’s IT capability was a specific capability assessed in the provider’s selection process. However, there is a significant and widening gap between 3PL users’ emphasis on the importance of 3PLs’ IT capabilities and their actual satisfaction with the provision of those capabilities. Only about one out of three users reported being satisfied with their 3PLs’ IT capabilities — reflecting a significant gap between expectations and performance. The data presented in Exhibit A3 suggest that the satisfaction level for 3PL IT-based capabilities is deteriorating quickly.

**What’s Next?**

It is up to the 3PLs to create the solutions that their customers want. The problem that has to be overcome is the “chicken and egg” portion of the solution development. The 3PL wants a customer to use the solution before investing too much in its development and the customer wants to see the viability of the solution before committing to using it. This contradiction has to be eliminated. Based on the study results, 3PLs have to invest more in their systems and educate their customers on their IT capabilities to capitalize on the IT value-added services.

**Notes:**

1. 2006 Eleventh Annual Third Party Logistics Study, Georgia Tech, Capgemini LLC, DHL, and SAP, 2006. This study provides detailed information about the 3PL relationships and services received by customer organizations in North America, Europe, Asia-Pacific and Latin America.
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