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The State of Logistics:

‘Banner Year’ for Economy Adds to Capacity Crunch

As the economic recovery appears to take hold and strengthen, the future looks bright for logistics service providers and their customers – assuming the capacity crunch in the warehouse, rail and trucking industries can be addressed.

This is one major conclusion drawn from the 2014 State of Logistics Report released June 17 in Washington, DC by the Council of Supply Chain Management Professionals, along with the views of a panel of shipper, transport and 3PL providers gathered to discuss the report at the press event.

Although the recovery went through some rough patches last year, “I believe that 2014 will be a banner year,” said economist Rosalyn Wilson, author of the report and senior business analyst with the Infrastructure National Business practice of Delcan Inc.

The overall economy performed weakly over the 2013 holiday season and the first quarter of this year largely due to extensive and extended bad winter weather, she admitted. “The health of the freight market is a solid indicator of the direction the economy is going. All indications are that freight will grow moderately for the rest of the year and the economy should follow suit.”

The numbers tell the story. Following a weak start in January, economic performance during first five months of 2014 has been the strongest since the official end of the recession in 2009, she said. Since the beginning of the year, industrial production rose

9.5%, new orders were up 3.3% and freight shipments increased 13.1%.

In May shipment volume rose 1% to the highest level seen since 2011, and it was the third consecutive month that the number of shipments increased, Wilson pointed out.

Freight payments climbed 1.1% in May, setting a record high and were 11.2% higher than a year ago and up 77.7% since the recession’s official end in 2009.

Both the rail freight and trucking industries are experiencing capacity problems for different reasons. For trucking the new hours-of-service regulations are exacerbating an already growing shortage of qualified truck drivers.

For the railroads, easing of drought conditions boosted wheat shipments last year and corn shipments this year, while parts of the country like Texas are seeing an increased demand for coal, according to panel member Pat Ottensmeyer, Executive Vice President of Kansas City Southern.

With coal and grain making up the bulk of railroad traffic volumes and accounting for most of their profits, capacity has shrunk for intermodal traffic, even though it is the mode’s fastest growing business line. While this is happening, Class 1 railroads like KCS are investing massive amounts in capital spending to improve both their infrastructure and rolling stock, Ottensmeyer noted.

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Panel member Richard J. Jackson, Executive Vice President of Mast Global Logistics, a subsidiary of Limited Brands Inc., said “significant parts of our supply chain are going slower,” including ocean shipping, which has become less reliable.

But trucking is where he has seen the biggest negative impact. “Over the past 12 to 18 months we have seen challenges surrounding both the availability and reliability of trucking service.”

As a result, Jackson said that his company and others are turning more to dedicated contract carriage to ensure their trucking needs will be met.

Marc Althen, President of Penske Logistics (sponsor of the CSCMP State of Logistics report), said his parent company, Penske Leasing, also has experienced an accelerating interest by shippers in contract carriage services over last year.

Althen also has seen the impact of the driver shortage firsthand. “At Penske if we could find 1,500 to 1,700 drivers I could put them to work right now.” The inability to put drivers in seats also has led the company to lease more trucks instead of buying them, he said.

In addition, Penske Logistics has seen a 40% increase in the year-to-year demand for 3PL warehouse management services, Althen said.

Based on the growth in freight demand and squeeze on capacity, Wilson predicts that truck rates probably will climb in the 5-8% range this year.

Other warehouse-based 3PLs report that in some areas the demand for warehouse space due to growth of both existing and new business is exceeding immediately available supply.

The State of Logistics report found that the cost of warehousing rose 5.6% in 2013. Industrial property vacancy rates were down almost a full percentage point from the previous year.

“Fourth quarter demand was particularly strong and reached the highest level on record,” Wilson noted.

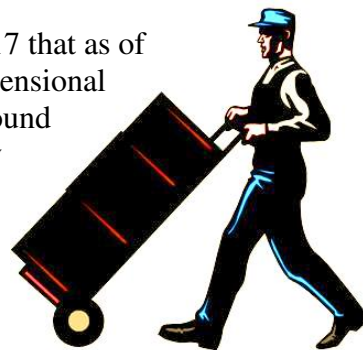
Retail inventories rose 6.2% year over year, and increased in every quarter during 2013. Wholesale inventories grew only 2.7%, mostly during the fourth quarter. Manufacturing inventories increased only 2.1% and have remained flat this year in spite of an upward trend in manufacturing.

FedEx & UPS Introduce Density Pricing for 2015

Both FedEx and UPS are introducing dimensional pricing that could result in rate hikes of as much as 17-30% for larger shipments.

FedEx led off by announcing in May that starting Jan. 1, 2015, FedEx will price ground parcel shipments measuring less than three cubic feet by size rather than by weight.

UPS announced June 17 that as of Dec. 29 it will use dimensional pricing on all UPS Ground services. The company already applies this method for domestic and international air services.



The companies appear to be trying to reshape the packaging practices of e-commerce shippers, who may turn to less bulky and more efficient packaging practices to avoid the higher rates.

Both FedEx and UPS found themselves in the news following service failures at the tail end of the holiday shopping season brought on by a big jump in e-commerce driven by Amazon.com, which continued to promise two-day free delivery only days before Christmas.

Experts predict e-commerce growth will make this holiday season much worse. “The holiday season in 2012 was an issue. In 2013 it was problematic. In 2014 it is a train wreck coming at us,” said Chuck Moyer, CEO of Express Courier International Inc., a ground parcel delivery service in the South, at the mid-June eyefortransport 3PL Summit in Chicago during a panel discussion moderated by ACWI Advance Editor David Sparkman.

Other speakers at the Chicago conference predicted that next-day, same-day and even next-hour shipping are the wave of the future. Target reported mid-June it is testing same-day service in Boston, Miami and the Minnesota Twin Cities areas.

However unsustainable the free shipping model embraced by Amazon may be, industry executives like Moyer say e-commerce competitors are under pressure to continue offering free shipping as long as Amazon and Walmart continue to do so.

NLRB Attacks Non-Union Employer Negativity Bans

In recent decisions the National Labor Relations Board ruled that non-union employer policies prohibiting workplace negativity are unlawful.

These decisions follow the NLRB's recent pattern of carefully scrutinizing non-union workplace policies for language that it believes employees could



construe as limiting their right to engage in "concerted activities for their mutual aid and protection."

In one case a hospital experiencing poor employee morale and high turnover asked a team of its employees to develop a statement of values and standards for employee behavior.

The employee-developed statement included not making negative comments about fellow team members and representing the hospital in the community in a positive and professional manner.

In finding the policy unlawful, the NLRB concluded that the language was overbroad and could be reasonably construed by employees to prohibit them from criticizing managers, unfair labor practices, and the terms and conditions of their employment.

In another case, the board ruled that a handbook provision which prohibited "discourteous or inappropriate" behavior was unlawfully overbroad. NLRB said employees could interpret this to mean prohibiting them from communicating about their employment because "no wording provides a context limiting the rule to legitimate business concerns such as uncooperation with supervisors."

Although the handbook contained a "Freedom of Association" provision, included the employer's pledge not to interfere with collective employee action, the NLRB found the provision inadequate because it was neither "prominent nor proximate" to the unlawful language.

The law firm of Cooley LLP recommends that union and non-union employers alike should re-examine these kinds of policies and consult counsel before disciplining employees for violating them.

Survey Says Direct Store Delivery Can Save Millions

Millions of dollars can be saved by consumer goods suppliers evaluating and improving their Direct Store Delivery operations, a survey conducted by Honeywell found.

The report, which contains feedback from 350 C-level consumer goods executives and directors from across the globe, finds that 49% of organizations feel increased transportation costs have severely impacted profit margins in the past 12 months.

But those organizations that have carried out process evaluations (a/k/a process re-engineering) in the past year in their DSD processes have cut or expect to cut costs averaging \$734,000 annually.

About 20% of respondents experienced or expect to experience at least \$1 million a year in tangible cost-savings through DSD process re-engineering, and about 20% of companies with 3,000 or more employees anticipate saving at least \$3 million.

"The report shows clearly that re-engineering DSD processes provides an opportunity for business transformation and competitive advantage," said Brian Schulte, industry director for Direct Store Delivery for Honeywell.

"Consumer goods companies can improve their revenue while cutting costs, enabling them to strategically grow their business and margins in these challenging times," he added.

According to the report, the top areas identified by survey respondents for cost improvement are fuel costs, merchandising, deliveries and payment procedures.

Respondents asserted that time and money also could be saved across key workflow areas. By making improvements to delivery, truck loading, delivery receiving/check-in, merchandising and order processes, the respondents said approximately 30 minutes could be saved in each of those areas per route, per day, equating to more than 2.5 hours per day for each DSD route.

The surveyed companies view DSD as a critical focus for their strategy, Honeywell said. Nearly 60% of surveyed firms said they view DSD as key to their company's business strategy going forward.

Low-Cost Smartphone Tech Can Help Manage Logistics

A new report shows how technologies like Microsoft's video-game camera Kinect, smart watches and Smartphone near-field technology can serve as effective logistics management tools.

DHL trend report, "Low-Cost Sensor Technology," reviews depth-sensing technology designed to speed up volume and fill height measurements. It can be downloaded at www.dhl.com/lowcostsensor.

This marks a complete reversal of past practices in which new technologies were initially applied in business and migrated to private uses only later, according to the Trend Research team at DHL Customer Solutions & Innovation.

"The success of Smartphones and tablet PCs has created a situation in which employees have better technology for personal use than they do for business needs," said Dr. Markus Kückelhaus, director of trend research.

"But they expect to have the same standard of technology at work. For this reason, we think companies have to step up and put Smartphone sensors in particular to work in logistics."

Tablet PCs and Smartphones contain a large number of sensors that recognize our surroundings. For some time now, it has been possible to measure acceleration, position or light with these devices, the researchers noted. The technologies contained in them can also be put to use in logistics.

These possible applications include recording the arrival time of shipments in parcel centers as part of tracking and tracing services, pinpointing the shipment's exact location and updating their status on an online platform.

Two concepts used to measure pallet volume already have been developed on the basis of sensor systems also found in Microsoft's Kinect. During testing, measurements made by depth-sensing technology have proven to be 50% faster than those performed with past technology.

Other potential uses for these reasonably-priced devices include fill level measurements for containers and trucks, as well as the monitoring and documentation of freight damage.

Court Upholds Employer's 'No Dreadlocks' Policy

A federal district court has rebuffed the Equal Employment Opportunity Commission's contention that an employer's ban on the dreadlocks hairstyle was racially discriminatory.

The case arose when an employer rejected a job applicant with the hairstyle.



The firm had established a policy that employee "hairstyles should reflect a business/ professional image" and also banned what it termed "excessive hairstyles or unusual colors."

The employer did extend a job offer, conditioned on the applicant removing the offending hairstyle. After the applicant refused to do so and the offer of employment was withdrawn, EEOC filed suit, charging that prohibiting dreadlocks was intended to discriminate on the basis of race.

Although some Whites also wear the same hairstyle, EEOC asserted "that Blacks are primary wearers of dreadlocks" and that racial discrimination protection extends to "both physical and cultural characteristics, even when those cultural characteristics are not unique to a particular group."

The court didn't buy it. Citing previous decisions finding employer bans on hairstyles were nondiscriminatory, the court said a "hairstyle, even one more closely associated with a particular ethnic group, is a mutable characteristic," instead of a racial characteristic that cannot be changed.

The court also rejected EEOC's arguments regarding socio-cultural racial significance of dreadlocks, noting that culture and race are different concepts and that federal law "does not protect against discrimination based on traits, even a trait that has socio-cultural racial significance."

While this decision reinforces an employer's right to set grooming policies, since then the EEOC has expanded protections for employees' appearance based on religion. Dreadlocks are associated with the Rastafarian religion, and attorneys warn a similar suit in the future may succeed if the case asserts religious discrimination over the hairstyle.

High Court Overturns NLRB Recess Appointments

The Supreme Court ruled unanimously that President Obama overstepped his constitutional authority when he made three recess appointments to the National Labor Relations Board in 2012.

The question for employers, of course, is what impact the decision will have. The answer is simple: A lot for the nation in general, but not very much for employers at this point.

The impact will be significant in terms of how our Presidents make future recess appointments. Under the Constitution, the President is permitted to make “acting” appointments to boards and agencies where those positions require Senate approval when the Senate is in recess for 10 days.

However, when Obama made the NLRB appointments at the beginning of 2012 the Senate was holding “pro forma” sessions every few days presumably with the intention of staving off just such recess appointments.

The Administration’s reasoning was that these sessions were phony and thus the Senate was really in recess. (During one of the three sessions in question there was actually a vote to extend unemployment benefits.)

One of the ironies of the situation is that the Senate’s practice of holding “pro forma” sessions was introduced by Sen. Harry Reid (D-NV) to block recess appointments by President George W. Bush.

There also was the unseemly act of Obama asserting which Senate rules were phony, when the separation of powers principle embodied in the Constitution clearly holds that the House of Representatives and Senate are responsible for making their own rules that govern their bodies, which the Executive Branch has no business interfering with.

The unanimous Supreme Court decision is important because it reasserts this principle and establishes a strong legal precedent we can hope will make it less likely that a future President will indulge in the same kind of overreach.

Senate Minority Leader Mitch McConnell (R-KY), said, “This administration has a tendency to abide by laws that it likes and to disregard those it doesn’t. The president made an unprecedented power grab by placing political allies at a powerful federal agency while the Senate was meeting regularly and without even bothering to wait for its advice and consent.”

Board May Undo Damage

When it comes to the impact on the NLRB and on employers, the high court decision created a bit of a mess regarding individual case decisions, but in reality has no impact on the major rulemakings of concern to employers.

Late in 2013 the President cut a deal with Senate Republicans that allowed the approval of a new slate of NLRB board members. The new board quickly withdrew the most important rulemaking that was approved by the recess appointees – the ambush union election rules – and then reissued them earlier this year. (AA, 2-15-14, P. 2)

The main problem is that the Supreme Court ruling also invalidates all of the decisions in individual cases that had been voted on by the NLRB in the 19 months between the recess appointments in January 2012 and the seating of the new board late last year.

Several years ago a similar situation arose when 500 decisions made by the NLRB were ruled invalid because the board lacked a proper quorum. Ironically, this happened because Senate Democrats had blocked President Bush’s appointees.

The solution following that court decision was simple but time consuming – the new board can reconsider those decisions and vote on them again. In some cases, the parties involved have moved on and the legal controversies are no longer of concern, or at least not enough to justify being re-argued.

“The impact of today’s ruling is far less than it might have been,” said President AFL-CIO Richard Trumka, when the decision was announced. “We are confident the NLRB will handle the pending cases impacted efficiently and expeditiously.”



Union protesters in 2007.