ICC LOGISTICS SERVICES, INC. LOGISTICS STRATEGIES

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LOGISTICS STRATEGIES QUARTERLY REVIEW - SECOND QUARTER 2010

To our valued readers:

Once again we have compiled for you our quarterly business review, this time representing major transportation and logistics issues for the second quarter of 2010. We believe the stories we have covered here represent important issues that every company will have an interest in. Our goal is to give our readers an overview of the key issues affecting their business in one way or another. It is our goal to continue with this Quarterly Business Review every quarter so that you are not only informed about the key issues but will also have our insight on what it will mean for your business in the weeks and months ahead. Information is power and we will arm you with all the information you will need to make a positive impact on your own business.

As always we welcome your comments as they are the driving force behind what we do and how we do it.

Please take a moment to check out ICC's Blog @ http://www.logisticsstrategies.com to check out previous articles.

RAKING IN THE PROFITS:

Our good friend and parcel shipping expert Jim Lerose, founder of Lerose Systems, LLC has taken a very bold step to alert corporate CEO's and other key corporate executives what many have known for a long time but have been afraid to say. In the May-June issue of Mailing Systems Technology, Jim provides bold insight into how UPS and FedEx doubled their profits last year. In many cases these huge increases in profits came at the expense of unsuspecting customers of these behemoth carriers.

Jim points out 10 ways shippers have helped to increase carrier profits at UPS and FedEx at the expense of their own. Here are Jim's ten points to ponder:

· You got bamboozled into thinking you needed to give all your business to one carrier to get the best rates.

· Your company paid the UPS/FedEx invoice without reconciling each shipment. Yes, you did.

· You gave your employees a blank check to spend at will on UPS/FedEx.

· You tried but couldn't enforce employee shipping policies although you knew it would cut costs.

· You didn't benchmark or compare UPS/FedEx rates vs. what other companies paid.

· You allowed FedEx/UPS to deploy their technologies, such as Worldship and Ship Manager, which are designed to increase their profits but not help your business ship better or save money.

· You felt helpless to combat new carrier fees, so you left it up to someone else to deal with...and they didn't! These fees now represent 15% of your entire invoice and you are blissfully unaware.

· You allowed your product to be shipped without the correct addresses. Shame on you!

· You left the contract negotiations up to an employee who had a relationship with the carrier rep. That cost you big time.

· You believed the carrier rep. when he/she said, "You have the best deal."

As you can see from Jim's statements he has provided some very keen insight into what goes on when shippers don't fully understand the rates they are paying and what the carriers' contract terms and conditions really mean. Many shippers also do not understand that there are many shipping solution options to help them save huge amounts of money. Shippers unfortunately sign these contract agreements every day because the carrier has assured them it's in the shipper's best interest to do so. We urge ALL of our readers to take a step back before agreeing to these contract terms and rates to solicit the expertise of a third party consultant to take a look at the contracts and analyze their shipping options BEFORE signing these agreements, not after when its too late.

To give you some insight into the power a parcel consultant can have on your business, we recently completed a parcel contract negotiation for a major electronics distributor. Our Parcel Appraisal and Negotiations Consulting Group generated an additional $1.4 million dollars in bottom line savings for our client. How many dollars in sales would your company have to achieve to put $1.4 million on its bottom line! Let's talk real soon and discuss ways we can help your business become more profitable.

WE CAN'T DO WHAT!

To add some more fuel to the fire, we are now hearing rumblings that UPS and FedEx are telling their shipper customers they will not negotiate contract pricing with a shipper's third party consultant. Even though this has been a practice for years. Many companies rely on these third party consultants because of their expertise in the field to negotiate unbiased and competitive contracts on their behalf with the parcel carriers. Some of the responses we have heard from the shipping public indicate that UPS and FedEx feel they can handle these negotiations more effectively because THEY have the shipper's best interest at heart. In fact some sales representatives for these companies have put words to this effect in writing! Yeah right! That's what the fox said when he suggested he would be best suited to watch the hen house. Imagine closing on a new home and your real estate agent stating you cannot use a lawyer to review the contract language before signing it because the sales agent obviously has the buyer's best interest in mind! Or, imagine your primary care physician telling you he always has had your best interest in mind so he will perform the open heart surgery, no need to go to a heart surgeon!

While we jest here, there is a real problem when there is limited competition in the market place as in the case of UPS and FedEx. UPS and FedEx have apparently drawn a line in the sand. We must assume the decision to block out third party consultants in these negotiations was made independently of each other, at least we hope it was. Did you ever hear the term "restraint of trade"! We are pretty sure however that once one player knew the other's position it was easy for them both to express to their customers that the shipper will no longer be allowed to seek advice from an industry expert for the betterment of its business! Well, what's good for the goose is good for the gander. We know for a fact that UPS and FedEx both use consultants to help them run their business more efficiently and to help them improve profits, so what are the shippers ... chopped liver!

With UPS and FedEx a duopoly in today's parcel shipping world, taking this action will surely be tested by shippers and major shipper groups, perhaps even in the courts. It is time for shippers to stand up for their rights and let these carriers know that it's the shipper's business and the shipper will ultimately decide what is in their best interest, not the carriers. Stay tuned folks this is going to be interesting.

WAL-MART'S IN THE DRIVER'S SEAT:

Wal-Mart is using its $408 Billion in annual sales to gain even more control over its suppliers. Their latest initiatives have applied pressure to their suppliers to provide environmentally friendly products and packaging, as well as exclusive product sizes and joint advertising promotions. Now they are seeking to take control of inbound supplier shipments to reduce their inbound transportation costs.

According to Wal-Mart's vice president of corporate transportation, Kelly Abney, Wal-Mart has contacted their suppliers in an effort to handle those supplier deliveries where Wal-Mart can perform the same function for less cost. Their overall goal is consumer oriented in that they are looking to use these savings to lower prices in their over 4000 retail outlets. And you can just imagine the buying power Wal-Mart will now have with their freight carriers. Their message to the suppliers is, lower costs mean more sales. They are also seeking lower costs from the suppliers for the products they ship because they will no longer be bearing the transportation expense.

Anyone who has been reading this newsletter for any period of time knows that we endorse this concept for all companies. The fact is if you are going to PAY for the inbound freight expenses, which by the way ALL companies do in one way or another, it is in your best interest to CONTROL those routings. Suppliers can ship products "freight collect" in which case the buyer would receive a freight bill from the transportation company; it can receive goods "freight Prepaid and added to the merchandise invoice"; or the freight costs can be factored into the price of the delivered goods. So in any of these scenarios the buyer is paying for the transportation cost. Corporate CEO's should not believe their purchasing managers when they say we purchase goods "freight free". Those terms just do not exist!

The price reductions Wal-Mart is seeking are significant. In some cases they are looking for reductions of 6% of the cost of goods sold, which by some supplier estimates is twice the price reduction the suppliers believe is equal to the cost of shipping. Wal-Mart has already met with over 100 of its top suppliers to negotiate new pricing terms. According to Abney, Wal-Mart ALWAYS works collaboratively with its suppliers so it expects the process to move along smoothly.

While all of this is good news for Wal-Mart and potentially for its retail customers, the news isn't so rosy for the suppliers. The "buying power" now shifts from the supplier to Wal-Mart so the suppliers' freight costs could be increased especially if they lose the efficiencies they had by utilizing their own fleets to deliver to the retail giant. So who will bear this increase in costs? Perhaps it will be the other retailers the supplier ships to.

A question that remains for suppliers is just how delivery shortages and overages will be handled with Wal-Mart. Under the current shipping method at Wal-Mart, the supplier's carriers drop full trailers of products into Wal-Mart's distribution center facilities to be unloaded at Wal-Mart's convenience. Upon checking the goods into inventory there are often shortages, damages and yes, in some cases overages. If Wal-Mart controls the inbound routings with their own freight carriers how these issues will be resolved with the suppliers remains to be seen.

Wal-Mart has been announcing that sales at its US stores have been down for the past four quarters so Wal-Mart is sharpening its focus on transportation expenses to offset these reduced sales. The suppliers seem to be between a rock and a hard place as no one wants to lose a customer like Wal-Mart. The bottom line however MUST be the profit margin for the supplier. If there is none, they will never make it up on volume!

GREENING THE SUPPLY CHAIN:

In another cost cutting initiative Wal-Mart's marketing team ran a very creative TV commercial during the second quarter of this year. In the commercial a Wal-Mart truck driver states that their "Green Initiatives" of reducing empty miles and consolidating shipments were a major reason Wal-Mart was able to roll back prices for the consumer. A very powerful message because most people do not associate "green initiatives" with cost savings. We are here to tell you that all of these "Green Initiatives" will provide additional greenbacks in the corporate pocket.

Many other corporations have implemented cost savings "Green Initiatives". For example, Kraft Foods took on a huge green supply chain initiative when it implemented an environmental effort by taking 50 Million truck miles out of their distribution network. The process involved moving truck shipments to barge along with consolidating loads and eliminating empty miles.

To put this into perspective, on average long haul trucks get about 6 miles per gallon on diesel fuel so this effort by Kraft alone saved over 30 Million gallons of diesel fuel.

At PepsiCo, environmental sustainability has been called "performance with purpose". Pepsi's supply chain executives from their four major business units are accountable for defining and driving the company's environmental goals which include reducing water consumption by 20% and fuel consumption by 25% by the year 2015.

PepsiCo works with each of its 210 national carriers to score and track mileage efficiency and CO_2 emissions per mile. One PepsiCo unit installed shut-off equipment on tractors to prevent idling for more than five minutes. This process alone is saving about 17,500 gallons of fuel annually.

The company is also expanding its use of intermodal transportation and is building alliances with other shippers. They're looking for partners to fill up boxcars to take trucks off the road because rail transportation is more efficient from a fuel consumption and emissions standpoint. Do you think Warren Buffet knew something about these efficiencies when he purchased the BNSF Railroad a few months back!

It is clear the major shippers are driving these environmental processes with their freight carrier partners. Therefore the carriers are being forced into these green initiatives whether they like it or not.

On the carrier front, UPS has more than 100,000 delivery trucks on the road each day. They travel more than 1.3 billion miles annually and deliver billions of packages, combusting millions of gallons of fuel each year. UPS' Green Fleet today contains over 2000 vans running on everything from Compressed Natural Gas to Electricity. The CNG vans shave 15% in fuel costs over the former diesel fuel powered engines.

Recently UPS added 200 new Hybrid/Electric vehicles to its Green Fleet. The combined fuel savings for these 200 vehicles alone is equivalent to saving 176,000 gallons of diesel fuel per year.

UPS' Package Flow Technology optimizes the routes for every package before it is loaded onto a delivery vehicle. Since its inception this technology has eliminated 100 million miles driven.

UPS' Delivery Information Acquisition Devices (DIAD's), which electronically records delivery information, saves over 89 million sheets of paper each year, the equivalent of 7,308 trees annually.

UPS and FedEx who combined operate over 150,000 plus delivery vehicles are looking into a variety of cleaner technologies including diesel-electric hybrids, and hydrogen fuel cell vehicles. They're doing this to satisfy Washington's push to cut emissions since trucks produce more than 30% of urban smog. Don't let anyone fool you; in addition to the Green Effect the biggest motivator is cost savings!

The numbers are beginning to add up. JD Powers and Associates estimates there are more than 500,000 hybrid vehicles on the road today with 40% of them trucks.

YRC Worldwide, one of the nation's largest LTL carriers, is aggressively addressing Green House Gas reduction strategies by limiting truck speeds to 62 MPH; implementing extensive use of intermodal services with railroads; setting limits on daily truck idling and enforcing tire pressure inflation and monitoring programs.

YRC has also recently introduced the Green Balance Calculator to measure a company's emissions and voluntarily offset the carbon footprint of its shipments. The calculator evaluates eight transportation activities that produce carbon emissions, among them, fuel usage, rail miles, air miles, and other factors.

YRC has taken direct aim at the airfreight industry. Airfreight tends to be very expensive and less environmentally friendly than ground transportation. A shipper might consider using YRC's or other carriers' expedited ground service which would reduce costs and carbon emissions. For example, shipments that are picked up on Thursday and Friday in California, and are delivered in New York City on the following Monday. Just think of the cost savings this change alone would bring along with its carbon reduction initiative.

USING DATA TO UNCOVER SAVINGS AND PROCESS IMPROVEMENTS:

While we can't take credit for the saying, we have said for a long time now "the devil is in the details". And in today's world of logistics data mining and analysis there is plenty of details for the asking.

Initially the transportation industry was slow to embrace technology but it has certainly come into its own in the last decade or two. With the tremendous amounts of information available to it one carrier, US Express Enterprises, has been "cleaning" data under the direction of Tim Leonard, their chief technology officer.

When Tim first arrived at US Express he found data in many different silos, all there but not easy to consolidate for meaningful applications. For instance with Driver Tech, their in cab information system they generate over 900 data elements with each download. Now combine that with 9000 vehicles downloading information and you have a tangled web of information to sort out.

Tim Leonard's first step was to "clean" the data to make sure it was accurate so he initiated a data quality initiative which now yields tremendous benefits because the data is now useful. Every day this data is used to drive out costs and improve efficiencies at this major truckload carrier. In turn US Express is able to share the data with its customers to help them operate more efficiently. Now there's a combination that's hard to beat.

Sounds logical, but you would be amazed with the data quality in many companies, and yet they make business decisions every day without first assuring the data is correct, meaningful and insightful. The real challenge in most companies today is to get the buy in from ALL of the key stakeholders so they can set the parameters for the required data and establish CAT or Corrective Action Teams to ensure the data meets all of the required standards. So what is your company doing to ensure its Supply Chain data is relevant and meaningful? We strongly suggest that if you do not have the talent or resources in house to assemble the data and make heads or tales out of it, that you seek out professionals who do have the capability. We would be happy to help you find the right solution.

TRUCKLOAD SHIPPING ON THE RISE:

It should come as no surprise to anyone that truckload spot freight volume has increased steadily this last quarter. Say what you want about the recession, there are signs that freight is moving and volumes are increasing. Whether or not this leads to a strong rebound in the economy remains to be seen. We think not, however.

In April alone the truckload spot volume jumped a whopping 291 percent from the same month last year, according to TransCore. This is the index's highest level since June of 2008 right before the recession kicked in. There has been a steady increase in this index for over eight months now.

The rise in spot market volumes is a clear indication of greater demand for truckload services and a limited supply of equipment. While increases in this index are not unique this time of year, the increase in April significantly outpaced the prior four year average of 11.5% between March and April. Spot freight volume tripled in the first quarter of 2010 over 2009 levels and also beat out the first quarter of 2008 by 11 percent, according to TransCore.

To support this rise in demand satellite radio is full of ads for truckload drivers. There is apparently a significant shortage of drivers from the many owner operators who packed it in during this latest recession or decided it was finally time to retire. Perhaps these drivers will be coming out of retirement sooner rather than later!