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International Directions

This issue of 3PL Americas is about international warehouses. The International Warehouse Logistics Association (IWLA) is involved with the International Federation of Warehouse Logistics Associations (IFWLA). IWLA participates with 22 other associations from other countries. The 2015 IFWLA Annual Conference is scheduled for early June in Liverpool, England. This is a great opportunity for warehousemen to meet others from many countries and foster relationships – and possibility to develop potential business.

IFWLA is taking a different direction for the future. Previously, it was managed by the United Kingdom Warehouse Association, but now it is venturing out on its own. The IFWLA Executive Committee, of which I’m a member, will be meeting in November. We will be discussing growth opportunities, as well as how to add marketing components to the IFWLA. I am hopeful this will lead to more business for our North American members and others.

IWLA has also been following the port situations, particularly in California. With shippers decreasing the number of chassis they are providing, a slowdown in the ports, and some ports adopting environmental standards that are detrimental to the kinds and numbers of trucks that can enter the ports, we are seeing great problems.

Containers are stacking up. Truckers are going out of business because they can’t get enough turns. Warehouses are facing tremendous pressure to move goods further down the line within shorter timeframes. This is a situation in which IWLA is getting involved, and we hope to introduce legislation in California that will address some of these port issues.

I was reminded this week about our relationship with our Canadian members. They joined in with IWLA nearly two decades ago and are tremendous support to our industry. It has been good for both organizations to come together and support each other, both through education and in the business that transpires between members.

I want to thank each of you for your membership.

IWLA is having a good year in services and membership. Your IWLA staff and leadership appreciate your support.

Steve DeHaan, CAE
President & CEO
International Warehouse Logistics Association
It’s a Global Economy: IWLA Helps You Know the Neighborhood

I’ve heard it for years: It’s a global economy. While the truth of this statement may vary by industry or region, there is no escaping that the supply chain—and warehouse logistics’ role in it—occurs on a global scale.

What does this mean? More than ever, IWLA members need to be aware of the varying laws, regulations, business expectations, and even customs/traditions of the people and shippers we serve. As a warehouse operator near the Canadian border and just off the Pacific Rim, I know firsthand how consumer demands and business trends mean more-fluid timelines and changing norms.

One driving force behind a global economy is the ease (and immediacy) of communication. Orders, once sent/received only by mail, moved first to phone. Then the fax came along and things sped up. The advent of the internet meant expectations for warp-speed information and fulfillment. Even that pace is accelerating: Mobile devices move business far beyond our customers’ headquarters offices—work happens any time of day from anywhere (time zones and “work days” are a thing of the past).

What role does a trade association like IWLA play in helping our industry embrace and thrive in this new reality? IWLA gives you and your employees access to timely information and peer resources that help you navigate international business.

While most IWLA companies are in North America, the association’s reach is extended by its relationship with—and membership in—the International Federation of Warehouse Logistics Associations (IFWLA).

I attended the 2014 IFWLA Conference earlier this year in Chicago. The event included delegates from nearly a dozen countries around the world. It’s clear that the domestic issues we face are similar to those shared by our counterparts in Asia and Europe.

IWLA also keeps you up to date on the laws and regulations that impact your international business connections. For example, the U.S. Food Safety Modernization Act focuses on understanding where and how the food products you handle in your warehouse move through the supply chain. The IWLA Food Council has focused on shaping this act and interpreting its regulations for members.

All of this IWLA-based information is available because of your membership. You may have noticed that IWLA recently updated its logo and website. These changes, incorporating the tagline “The Resource for Warehouse Logistics,” come with the goals of increasing IWLA’s presence in the North American supply chain and in helping our customers—foreign or domestic—find a warehouse that understands these business changes.

Tom Herche
Chairman
International Warehouse Logistics Association
In 2011, I wrote for 3PL Americas about the expansion of the Panama Canal in response to the growing use of ultra-large ships, and how those developments might affect supply chains. Now, a few years on, I can provide a clearer big-picture view that concentrates on changes in global container shipping and what those changes mean for ports and shippers.

The day of the ultra-large container ships has definitely arrived! The average fleet today includes 8,000-to-9,000-TEU vessels as the “work horses.” I anticipate that sizes in the next five years will increase, and range from 12,000 to 18,000 TEUs per vessel. What does that mean for port calls? At which ports will ocean carriers call? How long will they require for unloading? What off-terminal rail and road infrastructure improvements will be required to allow these larger ships to unload? These are the critical things to watch for in order for shippers and service providers alike to understand the “why and how” of modern container shipping during the next five to 10 years.

Changes have already started to show up in ports around the U.S.:

1. Fewer Port Calls: There will be fewer port calls for the bigger ships. Why? Because not all ports will have the necessary facilities to service the bigger ships. Here is what the ports will need to provide:
   (a) Extra-deep water, at least 50 feet, to handle ships larger than 8,000 TEUs.
   (b) Adequate air draft (height) below the bridges that are high enough to allow the vessels to operate under them. Troublesome ports in this area are NY/NJ, with the Bayonne Bridge, and Baltimore and Philadelphia with their sets of bridges.
   (c) Terminals with over-capacity and efficiencies to manage cargo discharge and loading in a manner that does not keep large ships at the dock for many days.
   (d) Enhanced rail and road infrastructure in place to support the movement of larger volumes of containers out of their gates, by either truck or rail.

2. Terminals: Gateway ports that can handle the larger ships must have dual rail, on dock or close in, to provide for faster throughput of containers off the terminal and to their destinations. Say, for example, that 4,000 TEUs of cargo are to be discharged at a port from a ship carrying 9,000 TEUs; that equals 2,000 truckloads or eight fully loaded, double-stacked trains, or some combination of both. This is twice what is currently being off-loaded from ships at some ports. And... that same ship will likely have at least 75 percent of those off-loaded containers replaced with new containers to go back out as “exports” from the same port. So now we have up to 4,000 container moves (off and back onto the ship) that must be accommodated in three to four days. That is a tall order for the size of terminals that currently make up the East Coast ports; West Coast ports, on the other hand, have been dealing with 8,000-to-10,000-TEU vessels for years. In fact, the latest news from Drewry, the ocean liner consulting group out of the UK, is that within months, the southern California ports of Los Angeles and Long Beach will be able to manage 12,000-to-14,000-TEU vessels, thanks to their new automation technology and on-dock rail capacity.

3. Price: Shipments from Asia to American East Coast population centers are still less expensive made via the West Coast and intermodal rail than fully by water to the East Coast, and 8 to 10 days faster. This truth is the single-largest impediment to the prophecy promulgated by the Panama Canal and others that Asian import cargo will shift to East Coast all-water routing.

4. Alliances: Since 2010, the steamship carriers have begun elaborate alliances, with Suez routing, to take advantage of the cost-per-container-slot savings that are afforded by using an ultra-large ship. Therefore, the “shift” to larger ships is in its fourth year. The carriers are making alliances work! (An alliance works like this: Picture a 747 airplane going from London to NY. Delta sells 200 seats, United sells 150, British Airways and Virgin Atlantic sell 100 each. Each airline prices at its own rate Continued on page 14
The Alibaba Effect: What Today’s 3PLs Need to Know

By Jim Tompkins and Valerie Bonebrake

Note: This is a condensed version of a full white paper by Tompkins International. To read the white paper in its entirety, download it at www.tompkinsinc.com/alibaba-effect-todays-3pls-need-know.

■ Introduction

In the last 20 years, e-commerce has exploded from a platform for buying books online to a massive business where consumers can buy virtually anything online. As new services and avenues to shop are introduced to the market, many agree and expect that merchants must be great in all channels in order to provide competitive prices, an awesome selection, best-in-class convenience, and a personalized experience – regardless of how, where or when customers shop.

This massive market disruption, now known as omnichannel, is here to stay. We believe that the disruptions of the last 20 years will pale in comparison to the pace and breadth of change we will see in the next two to three years. This paper will accelerate your thinking about how third-party logistics (3PL) solutions are changing – and will continue to change at an even faster pace – as retailers and consumer-product manufacturers figure out the opportunities and challenges of today’s omnichannel strategy. While this paper focuses on consumer markets, B2B will also be impacted.

A new player has burst on the global scene, making a grand entrance via the New York Stock Exchange. This new player is Alibaba, and it is poised to provide an even greater disruption to an already dynamic marketplace.

So who is Alibaba and why does it matter? Alibaba owns Taobao, China’s largest shopping website. It also owns Tmall, which offers a wide selection of branded goods to China’s emerging middle class. In addition, Alibaba runs an online payment system that operates similar to PayPal.

Alibaba’s IPO launched in New York City on September 19, 2014 (it was the largest IPO ever). Although Alibaba is not yet well-known in the U.S., consider that:
• 231 million people in China used Alibaba in 2013;
• Alibaba offers 1 billion unique items from approximately 10 million merchants;
• Alibaba shipped 5 billion units in 2013; and
• Alibaba is expected to participate in more than $450 billion in retail sales in 2014 and to generate a profit of more than $7 billion.

■ The Changing Landscape

The impact that Alibaba will have on the U.S. going forward is huge. E-commerce sales in the U.S. in 2013 were $264 billion. In 2014, second-quarter e-commerce sales were estimated at 5.9 percent of all retail sales. That number is likely to balloon during the 2014 holiday season, and we expect it to continue to grow.

Marketplaces like Alibaba present exciting new opportunities for retailers and consumer-product companies. Big marketplaces get even bigger because consumers and merchants use them, which results in more advertising and traffic. Here are two ways of thinking about these marketplaces:
• Forward marketplaces: Where retailers and consumer-product companies place their unique offerings on other marketplaces such as:
• Backward marketplaces: Where retailers place other merchants’ unique offerings on their own sites.

In today’s rapidly changing retail economy, the channels and marketplaces that retailers and consumer-product manufacturers serve are expanding and becoming more complex. To be successful, sellers must have high-performing, segmented supply chains. These companies are increasingly turning to 3PLs to provide solutions that enable supply chain flexibility and agility. It is clear that e-commerce will continue to grow; consumer-product companies will require fulfillment capabilities in support of their retail customers and for their consumer-direct business.

■ Delivering the Goods

Recent research conducted by Tompkins Supply Chain Consortium reveals that a full 65 percent of all retailers and consumer-product manufacturers use alternative channels, and 12 percent more are considering them. When it
comes to managing traditional supply chain requirements, 72 percent of all retailers and consumer-product manufacturers indicate their supply chain works well for their own company channels, but only 40 percent said their supply chain works well for alternative channels. Respondents indicated that changes were needed in process (82 percent) and technology (65 percent).

The Importance of Supply Chains to E-Commerce

In order to provide logistics services to retail and consumer-product manufacturers in the future, it is critical to fully understand and embrace the importance of supply chain performance as the source of competitiveness. The 3PLs that can support their clients with logistics capabilities that enable supply chain excellence will be the long-term winners in the marketplace.

To truly set themselves apart, today’s 3PLs must provide business-process improvement, end-to-end visibility to orders, events, and inventory, as well as the ability to enable selling into new channels and markets. Consider the building blocks to achieving such a relationship from the lens of the shipper in Figure 2.

Your customer develops product, marketplace and services strategies. In order to help your customer develop the right logistics capabilities for its supply chain(s), you must understand the go-to-market strategy. Your customer needs to determine what supply chain capabilities are required to meet the marketplace strategy.

More on the Alibaba Effect

Alibaba has a model that creates the mechanism for commerce enabled by technology. When it comes to fulfillment, Alibaba treats logistics in various countries differently. In the U.S., where a high level of logistics capabilities has already been achieved, the view is that Alibaba will rely on merchants to provide fulfillment, as opposed to building or buying its own logistics infrastructure. This model is not new as companies offer direct ship (from the manufacturer or distributor) today.

What is different – and will continue to be different – is the consumer expectation for not only great prices, but also convenience, personalized service and fast (plus increasingly free) shipping. The bar is set high for companies to compete, and most realize that they must have an omnichannel strategy.

More retailers will need 3PL services, and they will need new options for fast and efficient fulfillment and delivery, which creates a tremendous opportunity for 3PLs that have their sights on the future.

Plus, for those 3PLs currently serving consumer-product companies, the pallet in/full-carton-pallet out model must now evolve as consumer-product companies are also being asked by their customers to fulfill e-commerce orders directly for consumers. For many consumer-product companies, this is completely new. To add to the complexity, each retailer they serve has its own set of requirements. Additionally, many companies are choosing to face conflict head-on because they see a need to develop their own channels for selling to the consumer directly through various marketplace options.

Omnichannel Logistics

Omnichannel demands that companies develop new strategies for filling orders. Companies like Deliv are striking deals with shopping-mall operators to offer same-day delivery for store orders in the area. A consumer can place an order during the day and have it arrive at home that same evening.

Companies are figuring out the business process and enabling technologies to support all types of transactions. In response to these changes,
DCs and FCs must be strategically placed to maximize sales to new and repeat customers vs. the traditional approach of minimizing cost. The design of a company’s DC/FC network must support the company’s omnichannel strategy.

**Combining a DC and an FC**

Should a DC/FC be separate or combined? Should there be one facility or multiple facilities? These are questions to consider. In general, far too many supply chains have been designed with the DC/FC separated; this is a result of the DC being primarily and FC as a small piece of the total business. But given where we are and where we are going, most DCs/FCs should now be combined.

Combining the DC/FC offers several advantages:

- **Inventory optimization**
- **Fewer challenges in inventory allocation by channel**
- **Growing number of channels and evolution of channel volumes**
- **Enhanced justification of automation**
- **Different channels peaking at different times allows for the reduction of the impacts of overall peak volumes, which can smooth out staffing and facilitate cross-training of full-time warehouse employees**
- **Shifting order from/ship to (order online/store to order in-store/ship to home, etc.) is easier to execute**

Consider a traditional DC with its setup for bulk and rack storage. It has a layout set up for efficient receiving and storage, and outbound orders in case or pallet quantity. In Figure 3, a combination DC/FC will look much different in terms of layout, technology setup, and material-handling equipment. Companies will leverage shared inventories in a multichannel fulfillment environment, providing brick-and-mortar store fulfillment and e-commerce orders out of the same facility.

**It’s Time to “Get Local”**

The “Get Local” methodology relies on three key items: instant gratification (click-to-doorbell), speed of delivery (high delivery expectations), and personalization, service, and loyalty. There are several factors to consider with this, including the customer’s location and age, type of product, price point, and time of year.

For 2014, “fast” delivery is considered next-day to two-day. In 2015, fast delivery will be considered same-day or next-day. When sellers “get local” inventory will need to be divided between the DC and the FC.

**DC Inventory**

- **Level 1: National Distribution Center (DC1):** Where all inventory will be stored and distributed to nearby stores, nearby local distribution centers, and regional distribution centers. Also potentially distributed to fulfillment centers.
- **Level 2: Regional Distribution Center (DC2):** Where some inventory will be stored (A and B items) and distributed to nearby local stores, and local distribution centers. Also potentially distributed to fulfillment centers.
- **Level 3: Local Distribution Center (DC3):** Where some limited inventory (A items) will be stored and distributed to nearby stores.

**FC Inventory**

- **Level 1: National Fulfillment Center (FC1):** Where all inventory will be stored and fulfilled to nearby customers, nearby lights-out stores, nearby stores (click-and-collect), and regional fulfillment centers.
- **Level 2: Regional Fulfillment Center (FC2):** Where some inventory will be stored (A and B items) and fulfilled to nearby customers, nearby lights-out stores, nearby stores (click-and-collect), and local fulfillment centers.
- **Level 3: Local Fulfillment Center (FC3):** Where some limited inventory (A items) will be stored and fulfilled to nearby customers, nearby lights-out stores, nearby stores (click-and-collect), and local fulfillment centers.
- **Level 4: Lights-Out Store (FC4):** Where customers can collect their online orders (click-and-collect) and for fulfillment to nearby customers.
- **Level 5: Store (FC5):** Where customers can collect their online orders (click-and-collect) and for fulfillment to nearby customers.

The design and execution of the logistics network must support the business strategy. Companies need to make decisions about the number and type of DCs and FCs they require. Just as retailers and consumer-product manufacturers are actively looking at their networks, so too must 3PLs. Whether in dedicated or shared facilities, the requirements for multi-channel fulfillment (even in the same facility) are a game-changer.

But that’s not all. The days are gone when a national parcel service was adequate for delivery and consumers were satisfied to receive their goods in five to seven business days. The next-day/same-day schema has given birth to a host of new delivery options, from ShopRunner to Uber, to regional and local carriers, and many more alternatives for final delivery.

**Conclusion**

The Alibaba IPO has come and it is a big deal. It is important that companies learn more about Alibaba and alternative channels. Supply chains need to improve and 3PLs have a window of opportunity to progress and develop new capabilities and services through processes, people and technology in order to protect existing business and to grow new business. The 3PLs that demonstrate their understanding of...  

Continued on page 16
Supply Chain Key to Success in China — Outlook 2014/15

By Michael Zakkour

It’s no secret that China’s domestic consumption is rising rapidly. Chinese consumers are buying more of everything (from apparel and white goods to luxury items and housewares) and as they buy more, from more channels, including online, at single brand stores and from large specialty chains, domestic and foreign-owned companies have to reassess their supply chain infrastructure in China for both selling and making goods.

Supply chain in China was once an afterthought or was thought of only in terms of the make and ship processes included in manufacturing in China. But as China becomes not only the factory of the world but the “mall of the world,” this can no longer be true, as Suresh Dalai, an expert in operations in the fashion industry in China, told me:

“Superior customs clearance, warehousing and transportation capabilities can be huge competitive advantages and drivers of brand strength in China. For example, in the middle of February, there can be a 34-degree Celsius temperature difference between Harbin and Guangzhou. It is important to send the right products in the right amounts to both of these places in February – this is what will drive sell-through and reduce inventory. Furthermore, customers trust a brand that has the products available that they want. If not, they will go to the brand next door. Brand equity depends heavily on strong supply chain capabilities.”

The best way to start the re-evaluation process in China is to study trends and changes and to conduct a comprehensive supply chain assessment that includes all six “mega-processes” of the supply chain: plan, buy, make, move, distribute, sell.”

“Companies need to get China, Asia and their home operations more integrated and have a clear understanding of their China-specific supply chain challenges or risk losing in a hyper-competitive market,” said Jim Tompkins, CEO of Tompkins International. “Conducting an end-to-end supply chain assessment and then rapidly implementing needed changes is a must now.”

Both the public and private sectors in China are taking some bold steps to respond to the challenges of the new consumption-driven economy. Government measures, though stuck at a policy level in many cases, are addressing the right issues. Domestic companies are rising up to meet new demands. In 2014, China will see dramatic developments in its core logistics, retail, e-commerce and manufacturing industries.

Some key trends and issues companies need to plan for in 2014 include:

Transportation Costs and Parcel Providers

• In September 2013, China became the world’s largest net importer of petroleum. In recent years, China’s fuel costs have grown at around 20 percent. While that may drop to 15 percent in the coming year, the government has a challenge to get energy costs under control. In the long run, they plan to allow competition by private firms for domestic oil production, but this will take time as the state-owned oil corporations try to maintain control. Cost of energy for transportation must be a part of every company’s supply chain planning for 2014.

• Additionally, in the past year, new markets have opened up for foreign parcel service providers like UPS and FedEx, but because of price pressure from local providers, those additional markets did not generate much growth for them. There is some concern, among foreign companies in general, about the new administration’s support of foreign invested enterprises. So for 2014, it appears that growth will be, at best, slow and steady for foreign logistics providers.

Impact of E-Commerce

• The number of e-commerce shoppers in China is expected to rise from 350 million to 600 million by 2016.

• New models for distribution are arising out of the flurry of e-commerce development. As online retailers, such as Alibaba, Jindong and Tencent, build out their own delivery networks, third-party-logistics providers are responding by doing the same. These new networks integrate last-mile delivery, fulfillment and warehousing. Shunfeng, Deppon, and Best Logistics are examples of 3PLs aggressively developing such integrated networks that compete with the
online retailers.

• China’s warehouse sector has traditionally been hyper-local and extremely fragmented, with thousands of providers. Also, warehouses in China have always been low-tech affairs with little automation, little climate control and little attention paid to e-fulfillment-specific operations. That is changing. E-commerce is the number-one driver of new and technologically advanced warehouse spaces being built. One company that is emerging as an important player is Singapore-listed Global Logistics Properties Ltd., which has a network of warehouses across 33 cities, a rarity in scale in China.

• Another trend is that the big e-commerce players are setting up their own warehouse and logistics networks. For example, Tencent announced in January an investment of $193 million for a 10-percent stake in China South City Holdings, a company that operates warehouses and factory-outlet malls and provides several other logistics services to retailers.

Distribution

• For everyone developing distribution networks, land availability will continue to be a problem. The national government recognizes the importance of encouraging logistics infrastructure growth, but is limited in the support it can garner at local levels, where land is allocated. With extremely low vacancy rates – as low as 3 percent in some markets like Beijing – warehouse rents are likely to continue their growth of 5 percent to 10 percent per year.

• One thing that will not change much in 2014 is the need to engage with third-party distributors to move products to and sell in department stores, big-box retailers, grocery stores and specialty shops.

• For brands, new forms of franchise, licensing and joint-venture models will require hyper-specialized supply chain infrastructure to protect brand equity, ensure product availability and maximize sell-through.

Shanghai Free Trade Zone

• The new Shanghai Free Trade Zone, which was launched September 29, 2013, will present new opportunities for both inbound and outbound trade, such as:
  – International cargo may be transferred in Shanghai, rather than having to go to Incheon or other ports for transfer.
  – Foreign vessels will be able to ship domestically from Shanghai to other China ports.
  – The administration process for customs is being greatly simplified by allowing batch clearing of waybills, for example.
  – Distribution centers in the new zone will be allowed to fill both domestic and international orders. This privilege is currently reserved for domestic companies, but could open up to foreign companies in the future.

Sourcing

As costs increase, some sourcing will probably move to lower-cost countries and non-coastal regions in China, but not in significant volume. Chinese manufacturers are now looking to offer more than low-cost production as they seek to move up the value chain. They will do so by of-

VIETNAM UPDATE

By Mark Millar

Container Port Developments. With its lengthy coastline of almost 2,000 miles, Vietnam’s seaport network comprises numerous small and medium-sized entities. The fragmented sea-side capabilities are further hampered by inefficient land-side distribution. Most large ports are located on rivers, typically with limited access to the ocean, insufficient water depth, quay length and container yard space, and downtown city locations that make cargo transfers to other modes of transport difficult and inefficient due to traffic congestion.

Modern, deep-water facilities at the Cai Mep-Thi Vai port complex – situated on the southeast coast some 30 miles from Ho Chi Minh City (HCMC) – are suffering, thanks to their distance from major industrial zones, limitations in land-side connectivity and associated costs. Cargo owners and shipping lines have been reluctant to utilize the newly built facilities, causing the suspension of operations at several of the new terminals.

Compounding these issues is the continuing operation of the Saigon city river ports in downtown HCMC, which thereby support existing inefficient operations within the city – and related congestion and pollution – and further entrench incumbents’ reluctance to move cargo operations to the new Cai Mep facilities.

If operators of large container vessels can be persuaded to return to Cai Mep and multimodal connectivity can be enabled through effectively integrated logistics networks, the Cai Mep International Terminal could provide many positive opportunities for Vietnam, not the least of which would be a connection for south Vietnam to the major international trade flows from Asia to Europe and the U.S.

In the international context, Vietnam’s location on the South China Sea provides access to the main intra-Asian and inter-Asian shipping routes, which are forecast to achieve above-average growth in the coming years. Adopting a more holistic and integrated approach to deep-sea port development and the related multimodal hinterland connectivity will enable Vietnam to better capitalize on its strategic position and vast potential – with many opportunities to empower performance and growth throughout regional supply chain ecosystems in this Asia era.

Mark Millar is founder and managing partner of M Power Associates, based in China. He can be reached at mark@markmillar.com.
ferring design and make-on-demand services, and venturing into higher-technology components in the developed Pearl River Delta, Jiangsu and Fujian Provinces while shifting lower-end manufacturing to the interior.

**Outlook**

China is struggling, but making progress, to morph into an economy that is driven by domestic consumption, but the logistics infrastructure to enable this transformation is a major challenge. The government recognizes the issues and is expected to continue taking measures such as controlling fuel cost, encouraging logistics development, and opening up trade. Domestic companies will no doubt continue to take aggressive steps such as building their own integrated logistics networks and moving up the value chain.

Global companies making and selling products in China must reassess their approach to supply chain in China and understand that supply chain excellence saves on cost, creates new revenue and has a direct effect on brand equity.

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**SUPPLY CHAINS from page 8**

and, of course, some are more/less expensive than others!) Because of these vessel-sharing arrangements, there are fewer vessels and, therefore, fewer port calls. The East Coast ports are jockeying for position, trying to remain viable to vessel calls by the larger ships that are becoming the norm, not the exception.

The reality for shippers is that larger ships are here to stay. The carriers are tired of losing money (reported at more than $37 billion over the last five years), and larger ships, alliances to share vessels and fewer port calls are the new reality, regardless of the expansion of the Panama Canal. Ports must meet all of the requirements I have mentioned above to stay “relevant” and to remain part of the global conveyor belt of finished consumer goods manufactured in Asia and consumed in the USA.

Off-loading and loading density is the key to utilization of the larger ships, so carriers will concentrate on port rotations where the off-terminal and on-dock infrastructure can support the increased volumes of large vessels.

Only those ports that can expand, deepen and widen berths to accommodate bigger ships, and make required land-side facility enhancements such as adding wider-span cranes, more rail loading space and efficient terminals to move goods from ship to dock and out the gate, will be the recipients of the ultra-large vessels.

*Curtis D. Spencer is president of IMS Worldwide Inc.*

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THE MIDDLE EAST brings up different pictures in the minds of different people — from Bedouins and camels in the desert through to the Burj Khalifa, the world’s tallest building.

In some respects, logistics, supply chain and warehousing mirror these contrasts, from the basic to the world-leading.

The Middle East is, of course, a large and diverse area, encompassing Egypt and Yemen — with their relatively low standards of living — through to Israel, Lebanon, Syria, Iran, Iraq, and the GCC (Gulf Cooperative Council) countries of Saudi Arabia, Qatar, Bahrain, Oman, Kuwait and the United Arab Emirates (UAE).

Dubai

Arguably, the world of logistics is accelerating at the fastest pace in UAE, at around 20 percent year over year. UAE’s logistics activity centers on the emirate of Dubai. Unlike its sister emirate, Abu Dhabi, Dubai now has minimal oil wealth, but has worked hard and fast to develop its reputation as a leading center for commerce and tourism. Surprisingly, manufacturing is also significant in this area, contributing 20 percent to GDP.

Dubai took a big knock during the global financial crisis, but is now on the upswing. So why is Dubai seen again by many as the place to be? One reason is marketing: Dubai is building itself a great image globally, helped, of course, by its superlatives: the world’s first seven-star hotel, the world’s tallest building, the world’s largest man-made island. It is also seen as a safe haven in the Middle East; parallels are often drawn with Switzerland.

The infrastructure of this global hub is one of the keys to its logistics growth. Six billion consumers are within eight hours’ flying time of Dubai. Served by more than a hundred airlines, it will soon be home to the world’s largest airport. Dubai is also home to Jebel Ali Port, the world’s seventh-busiest container port, serving 170 shipping lines.

Approximately $150 billion worth of imports and exports pass through Dubai every year. Seventy percent of those goods are transshipped; the balance serve local and GCC markets through a rapidly expanding road network. The presence of a staggering 4,000+ freight forwarders in Dubai helps to make this happen.

All of this makes Dubai the largest multimodal logistics platform in the world.

Alongside this is the business acumen and funding that Dubai has to “make it happen,” with Dubai Logistics City (DLC) being a good example of this.

DLC will link the new Dubai World Central Airport with Jebel Ali Port. The total area of DLC will be just under 55 square miles, encompassing 59 million square feet of warehousing space and with housing for upwards of 900,000 people. It will be one customs-bonded environment, home to both multinational and local logistics providers and distributors, companies that will provide stock-holding, fulfilment and value-added services. Free zone companies can be set up with 100-percent foreign ownership.

The Broader Picture

Logistics is not taking a back seat in other areas. Saudi Arabia, for instance, has major manufacturing plants for food, chemicals and metals and, with one of the highest and richest populations in the region, has high levels of local consumption. Qatar is investing in logistics, with major investments in warehousing and transportation. Investment in logistics is also substantial in Kuwait, particularly as that country is a significant bridge-head into Iraq and serves a large military-related market.

Many of the large companies in the Middle East are family-owned organizations that some people would refer to as “feudal.” These organizations are often both highly diverse and highly integrated. A food-manufacturing company might, for instance, have its own 3PL division; it might also have a fast-food franchise, a building company and a chain of hotels. These companies have grown as a result of trading success, helped perhaps by some oil wealth and fine-tuned by second-generation family members who have been educated at some of the best establishments in the world. They are not afraid of paying good salaries to headhunt senior managers from around the world. Between family companies and wholly owned multinationals are joint ventures; although still popular in some areas of
the Middle East, joint-venture companies are becoming less attractive now that 100-percent ownership is possible.

So far so good, but what can you expect in terms of people, infrastructure and support, whether you’re looking to develop your own operation or contract out to an existing player?

It is fair to say that the “leap frog” effect is in operation in the region. A few years ago, warehouses were literally sheds, block stacking was prevalent, no systems were in sight and the labor force was uneducated. The latest warehouses, however, are, in many cases, world-class, built to high quality and operational standards. The typical new warehouse in the region measures over 100,000 square feet, fitted out with good-quality VNA racking, often with mezzanines, and combi and counterbalance trucks. Professional managers, often from Europe or India, are now running these operations, using accepted systems and procedures.

Dubai likes to think of itself as a world leader in the adoption of technology and this tends to rub off in the world of logistics. RFID and voice technology are being looked at enthusiastically but, as in the rest of the world, current ROI calculations are limiting their uptake. The region is incredibly cost-conscious, no doubt in part because of its trading history, but the drive is now on to make the labor force increasingly efficient. In the older days of cheap and available labor, this was never high on the agenda, but it is now.

Warehouse management systems from leading providers are becoming de rigueur in virtually all new warehouses in the Middle East; the days of the in-house-developed WMS have come to an end. These systems are almost always implemented alongside the latest real-time wireless systems; all of the leading vendors of mobile and wireless technology have a presence in the region.

The trend to provide more added-value services, including kitting, light assembly, customization and country configuration, further increases the need for technology. Additionally, the global clients of logistics providers are demanding resilient solutions that give them accuracy, traceability, conformance, with real-time electronic links to their corporate systems.

The area’s communications networks support wide area networks, although often at a lower service level and higher price than some countries may have come to expect. IT support and literacy is generally good, helped by a sizeable population of tech-savvy people from India.

The challenge in introducing systems and procedures is often down to people and culture. For instance, Dubai’s population is a staggering 80 percent expatriate, from around the world, but in particular from India, the UK, the Philippines and Malaysia. This presents challenges in terms of language and communication. Exacerbating the problem is the region’s transient labor force; people often move from job to job every year or so. Recruiting and retaining key staff is a top challenge this part of the world. The labor force in the region is hard-working; people come to the Middle East to earn money and, in most cases, to send money home. Refreshingly, workers are highly focused on results and profitability; they want to see their organization succeed and they see this, logically, as a win-win.

Other challenges relate to transportation. For multimodal transshipment within Dubai Logistics City, this will not be an issue, but for cargo moving outside this area, traffic jams and bottlenecks are a major issue. A 20-mile journey from Jebel Ali Port to the neighboring emirate of Sharjah can take more than two hours. Transportation can also be in short supply and there are problems of overloaded and unreliable vehicles. Anyone operating in a cool chain needs to ensure due diligence; some transport and warehousing companies have not yet grasped the concept that a cool chain needs to be 100 percent end to end – and that an open pickup truck is not appropriate to use. The authorities, however, are conscious of the need to tighten down in these areas and it is fair to say that standards in Dubai are improving year over year. HACCP is being widely introduced, for instance, as is the use of GPS and on-board computing.

A further benefit of operating in the Gulf Region is the security there. With one of the lowest crime rates in the world, this is a good area to operate warehousing and distribution operations. TAPA security standards are being introduced into many warehouses. Jebel Ali Port, along with most DP World ports, is implementing C-TPAT and ISO security standards.

One closing word about the region: Personal relationships are key to success in this region. The general rule is “friendship first, business second.”

Steve Cross is managing director of the ATMS Group of companies, with offices in the UK, Dubai and Manila. Steve acknowledges the advice and information given to him by John Gillingham of IAL Logistics, Mike Lee of 347 Logistics, Ian Bessant of D3PL and Michael Profitt of Dubai Logistics City.

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developing supply chain capabilities as a strategic weapon will be able to create greater value for themselves and their customers.

If retail and consumer products are verticals that your company serves or intends to serve, it is critical to provide new fulfillment services and work with regional and local parcel-delivery firms. These elements will put you at the forefront of helping your customers in this new age of commerce.

Watch The Alibaba Effect video (www.tomkinsinc.com/videos/alibaba-effect) to learn how Alibaba will change U.S. logistics and take the e-commerce world by storm.

Jim Tompkins is CEO and Valerie Bonebrake is senior vice president of Tompkins International.
THERE IS NO DOUBT that our world has changed drastically in the last 10 years. Shopping now takes place around the clock, technology is streamlining and improving business processes, and customers are demanding more responsiveness from companies. As a result, shippers and logistics service providers alike are responding to and facilitating changes within the industry to enhance customer satisfaction, reduce risks within the supply chain and improve operations. What's more, many of them are increasing their collaboration and relying on each other to improve the supply chain.

Research for the 2015 Third-Party Logistics Study shows that shipper/3PL relationships are strengthening, and both parties are seeing positive results from their partnerships. A majority of shippers – 92 percent – reported that their relationships with 3PLs generally have been successful. Among 3PLs, that number increased to 98 percent.

When it comes to shipper/3PL relationships, the most frequently outsourced activities tend to be those that are transactional, operational and repetitive, such as domestic and international transportation, warehousing, customs brokerage and freight forwarding. Both parties are also reporting an increase in the amount of collaboration to achieve logistics cost and service improvements.

Cost savings are among the top benefits shippers report. Shippers participating in the study reported an average logistics-cost reduction of 9 percent, an average inventory-cost reduction of 5 percent and an average fixed-logistics-cost reduction of 15 percent. Shippers are also experiencing improvements in their order-fill rate and order accuracy. That improved performance within the supply chain results in greater customer service for all of those involved, which is becoming more important in today’s business environment.

Providing an Always-On Experience for Customers

Shoppers are no longer constrained by a store’s hours, and they expect to have an always-on, always-open shopping opportunity. How and how quickly an order is fulfilled is a key factor in customer satisfaction. To succeed in this changing landscape, retailers are investing in new technology, redesigning their supply chain and testing new fulfillment options.

While technology is making it easier for retailers to allow consumers to buy when and where they want and choose how the order is fulfilled, the number of order channels multiplied by the number of delivery options creates a complex operating environment for shippers and logistics providers.

Research for 2015 shows the shipper/3PL relationship strengthening and both partners are seeing results from their partnerships.

While retailers understand the importance of the omni-channel network and are making strides, omni-channel supply chains are still maturing. Nearly one-third of those participating in the study said they are not prepared to handle omni-channel retailing and only 2 percent of respondents rated themselves as high-performing in the omni-channel space.

Retailers are working to improve their omni-channel offerings and about half of respondents in the logistics study said they are testing new fulfillment strategies. In-home delivery from local stores, Sunday delivery and customer delivery in which an in-store shopper delivers goods to someone’s home are among the most frequently tested options.

- Walmart is among those looking to tap into shoppers who are already in the store to deliver products to customers who ordered online. In-store shoppers would inform the retailer of their destination and volunteer to deliver packages to shoppers nearby in exchange for a discount on their bill.
- Amazon has made headlines by testing drones for faster delivery of goods. The drones can carry packages weighing about five pounds to locations within a one-mile radius of an Amazon fulfillment center.
- Amazon has also installed delivery lockers in grocery, convenience and drugstore outlets at several locations in the U.S. and the United Kingdom. The lockers hold packages weighing less than 10 pounds and customers
can pick up their deliveries at their convenience, eliminating the chance of missing a delivery or theft from their doorsteps. In the Los Angeles and New York metropolitan areas, Amazon is collaborating with the U.S. Postal Service to provide Sunday package delivery.

One of the biggest challenges companies face is that their existing infrastructure simply cannot support a true omni-channel network. In the past, retailers created dedicated e-commerce distribution centers that were designed to pick, pack and ship partial shipments. The rest of their distribution centers were for full shipments, and, in the past, companies rarely shipped directly to consumers from the store.

While those lines are blurring, companies have to determine how much of their current infrastructure they are willing to take apart to build new delivery channels. Overall, retailers are trying to better utilize space and creating more in-store integration with online channels, using bricks-and-mortar stores as fulfillment centers for Internet shopping sites and to facilitate Web order pickup in which the customer shops online then picks the package up at the store.

Although retailers have the opportunity to provide customers with more options than ever before, they also have to ensure flawless execu-
tion. With new opportunities come new challenges, and technology has a greater role to play. It allows retailers to obtain the real-time visibility into their operations that allows for faster fulfillment and deliveries of orders, all in the name of customer service.

■ The Growing Role of Technology

To improve operations, retailers are gradually moving their platform-based solutions to the cloud. They are also using integrated technologies, such as warehouse management systems, enterprise resource planning software and transportation management systems, and investing in technologies that allow them to personalize and customize the shopping experience, such as mobile apps.

Within the supply chain, there are a number of ways in which technology is improving sales processes and profit margins. Customer relationship management and mobile-cloud technologies can streamline global workflows and processes, provide executive-level visibility to commercial leaders, identify inefficiencies and bottlenecks in commercial operations and provide real-time information into operational performance.

There is also evidence that the use of CRM-mobile-cloud technologies can significantly enhance and streamline 3PL sales executives’ activities. On average, 3PL sales executives spend 45 percent of their time engaged in customer-facing activities, such as phone meetings/conversations and face-to-face meetings. That means that more than half of their time is spent on other activities that are not directly related to securing new customers or directly serving existing customers. Ultimately, technology can help these executives cut down on non-customer-facing activities and focus more on relationship building.

Technology is not only helpful; it is starting to become a requirement. In this year’s study, 40 percent of shippers indicated that their bid processes place emphasis on 3PLs utilizing capable CRM technologies. The visibility technology provides can also help retailers and shippers identify and address risks throughout the supply chain.

■ Risk Management within the Supply Chain

Risk management used to be a back-office concern, but that is no longer the case. Today it is garnering the attention of top executives as companies increasingly focus on providing a perfect customer experience. In turn, 3PLs are placing greater emphasis on the risk management services they provide clients, which is enhancing the effective management of supply chains worldwide.

In an effort to minimize supply chain disruptions, a growing number of companies are moving their manufacturing closer to the point of consumption. As a result of these near-shoring efforts, manufacturing hubs are shifting and more businesses are moving to Mexico from Asia, driving significant growth within the manufacturing industry in Mexico.

Just under half of study respondents – 40 percent – said they have already moved some of their operations to Mexico, citing reduced freight transport time and closer proximity to sources as the most important factors driving the change. About 80 percent of Mexican exports ship to the United States, and respondents in the U.S. and China are the largest percentage of those that are moving operations to Mexico. (See Figure 4.)

Understandably, the growth in the manufacturing industry in Mexico is creating opportunities for 3PLs – both for freight movement and for ancillary services. The effective movement of goods plays a crucial role in rendering Mexico’s businesses cost competitive. Of the logistics service offerings in Mexico, 68 percent of study respondents said they are currently buying or providing domestic transportation, interna-

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Figure 4: Percentage of Respondents Moving Operations to Mexico

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ional transportation and warehousing, and 12 percent said they plan to invest in those areas in the next 12 to 18 months.

However, a lack of quality infrastructure and certain regulatory aspects continue to challenge Mexico’s logistics industry. There is little use of information technologies by small and medium-sized companies, and most companies see technology as an expense, instead of as a tool or investment. Technologies such as warehouse management equipment and software and asset- and vehicle-tracking solutions need to be increasingly adopted to ensure cost effectiveness, but this creates an advantage for 3PLs that have expertise in these areas.

Technology can also help quell concerns about security, crime and corruption. Mexico ranks 106th in the world on the Corruption Perceptions Index, and the country faces a shortage of institutions to keep organized crime and corruption in check. To improve security and visibility, a number of companies utilize track and trace technology, and 3PLs have the opportunity to differentiate themselves by providing such updates to their customers.

The logistics marketplace will continue to evolve, particularly as technology improves, and 3PLs will keep enhancing their ability to drive innovation and create value for their customers and clients. At the same time, those same shipper customers will continue to become more proficient buyers and managers of 3PL services. As the supply chain continues to change, so will the talents and skills needed from the supply chain workforce.

### Workforce Management within the Supply Chain

Existing positions within the industry are changing rapidly. By 2015, three out of four jobs within the industry are expected to change. Going forward, simply having hard skills in operations management will not be sufficient. Instead, a mix of soft and hard skills involving leadership qualities and cross-functional competencies will shape the industry.

What’s more, properly managing the workforce will be particularly important for the 3PL industry as it is expected to face a shortage of talent. Nearly 50 percent of those participating in the study said they are already having difficulty in finding or attracting talent, and the average hiring growth rate within the supply chain industry is expected to be higher than the average growth rate across other occupations. Estimates show that 60 million people will exit the industry by 2015, but there are only 40 million people to fill the gap.

There is also an expected shortage of professional truck drivers who actually move products. Although supply chain models and mobile devices are making just-in-time ordering and fulfillment more possible, professional truck drivers remain one of the most critical links within the supply chain. Bob Costello, chief economist for the American Trucking Associations, has said that the trucking industry needs to add nearly 100,000 drivers annually over the next decade to keep pace with freight.

The effect the truck-driver shortage will have on the supply chain is significant. Already manufacturers, distributors and other intermediaries operating private truck fleets are outsourcing their trucking to 3PL providers as a solution. This may be a short-term solution; to truly address their concerns, companies may begin making upstream adjustments, such as shifting distribution patterns, relying on intermodal transportation and shipping larger quantities at a time.

Whether changes are driven by available labor, technology or other factors, the supply chain industry will continue to evolve. No matter how it changes, to remain successful, 3PLs will have to provide value and create trusted solutions. Otherwise, companies will choose not to outsource operations where they feel they can serve their customers better.

Shanton Wilcox is the vice president of supply chain management at Capgemini Consulting in the Greater Atlanta area.

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**Future Issues of 3PL Americas**

3PL Americas is the magazine of IWLA and provides members and non-members with news and information on concepts and best practices in warehouse and logistics management. The lead articles for upcoming issues are set well in advance. We welcome reader input on themes and articles for future issues.

Lead article themes and deadlines:

- **Winter 2015** – Pre-Convention issue (January 16, 2015)
- **Spring 2015** – Post-Convention issue (April 13, 2015)
- **Summer 2015** – Addressing the Worker Shortage (July 15, 2015)
- **Fall 2015** – Best Practices in Facility Management (October 16, 2015)

*Suggestions for authors, articles and themes can be submitted to 3PL@jmla.biz.*
According to Google’s Eric Schmidt, there are an estimated 5 million terabytes of data on the Internet, of which Google has been able to index only 0.004 percent. Your personal sliver of that minute fraction comes to you via smartphones, tablets and computers. You may have a dashboard on your PC, along with notifications chiming from apps on your phone and tablet. We have come to rely on these indispensable systems to help us manage our lives, to parse through our slice of the information available. However, dashboards and notification systems have two qualities in common: They are reactive and they do not help us plan for what lies ahead.

Today’s supply chain is a crucial element of business. The supply chain has a seat in the board room and the percentage of supply chain executives reporting directly to the CEO has doubled in recent years. An effective supply chain is seen as a competitive differentiator, helping companies launch new products and enter new markets. Responsible for balancing working capital and service levels, the supply chain can literally make or break a company. While supply chain planning systems are forward looking, today’s supply chain teams are reliant upon reactive notifications that present what has already happened.

Structured and Unstructured Data Hit the Supply Chain

Supply chains are overflowing with data. Structured data emerges from information generated by enterprise resource planning (ERP), supply chain planning, point-of-sale (POS), order management, or warehouse management systems. As favorable as these sources are, even the most advanced supply chain organizations still struggle to keep up with and make sense of the ever-accelerating flow of information.

When we add new, unstructured sources to the mix – private social networks such as Yammer and SharePoint, public networks such as Facebook, Google+, LinkedIn and Twitter – we add a massive amount of new data that shapes or conveys buying intentions, provides clues to upcoming trends, and enables a more connected sales force to better predict the timing of orders and cancellations.

All this timely information can help supply chain organizations tune demand and supply plans, finalize manufacturing plans, and support new product introductions, but it demands a vigilant focus on supply chain metrics and analytics. Drawing on structured and unstructured data, supply chain analytics can deliver rapid insights that help companies identify trends, potential disruptions and new competitive threats. This is the crucial ability to both report what has happened and predict what is likely to occur.

Beyond The Supply Chain Control Tower

Only a few years ago, state-of-the-art best practice was to establish a centralized location – a supply chain control tower – where one could assess current supply chain status using KPIs and alerts to focus resources on important issues to resolve. Today, analytics need to be a part of every step of supply chain planning. Analytics need to be everywhere – spanning echelons, encompassing historic, current and future time horizons. Planners need to visualize their plans over time and understand how they relate to the goals established for the business, product family, geography, channel and so on, day in and day out.

Supply Chain Insights’ report, Voice of the Supply Chain Leader 2014, highlights the evolving nature of analytics. According to this research, “access to the right data and access to actionable analytics” (Figure 1) are two of the top pain points facing today’s supply chain organizations. The report also highlights the lack of ability to “pair predictive analytics with visualization to drive more informed decision-making.” Visualization delivers powerful capabilities to supply chain planners, including the ability to view the plan in the context of multiple factors, quickly see how the plan could change and where potential bottlenecks may occur to reaching goals and objectives.

Looking into their crystal ball, the same executives pointed to “data visualization and increased supply chain visibility” as two of the top trends impacting operations. As valuable as the control tower concept is, advanced systems need to go beyond, making sense of the data and deliver-
ing the information planners require in the context of their role within the supply chain. (See Figure 1.)

Planners may log into the system and check their dashboards; this is a great place to start the day and get an overview. The next step is to gain insight into what has occurred, as well as what will happen today, tomorrow or six months from now.

■ What If?

What would happen if you change suppliers or move manufacturing from China to India? How would you react to a natural disaster or a new competitor launching in your category? These are questions you face every day, questions that require answers. The traditional scenario-planning cycles of once a quarter or worse, once a year, are not good enough in today’s market.

Actionable analytics that go beyond telling what happened enable rapid scenario planning and the ability to simultaneously compare multiple scenarios. This takes a supply chain from scrambling to reroute production following a change in plan to simply enacting a plan B or C already in the system and shared throughout the network.

According to Supply Chain Insights, only eight percent of companies surveyed are satisfied with their “what-if” scenario-planning capabilities. This alarmingly low number shows just how exposed the vast majority of supply chains are to “changes in the plan.”

■ Social Signals

Social signals from sources like Chatter and Yammer can be used to stay ahead of changing customer preferences. The information can be presented throughout the planning process, incorporated into future views and used for rapid scenario planning. Social collaboration across the enterprise, its customers and suppliers allows companies to quickly share the right metrics, identify issues before they escalate and seize new opportunities. Analytics help teams align actions with the goals and objectives of the business.

■ New Products

The typical cycle of one to two new product seasons per year has morphed into three, four or even six seasons per year depending on the industry. This creates greater reliance on historical sales data to plan for expected demand. It calls for immediate access to what is happening in the supply chain, as well as the ability to automatically visualize what is likely to occur. Rapid access to information, combined with the ability to game-plan multiple scenarios, can drive better replenishment, effective promotions and longer product life.

■ Analytics in Action

One company I recently spoke with described its supply chain journey as one of failed notions, spreadsheets and error fixing. Analytics were simply numbers in an Excel file. Little insight could be gleaned, and it was almost impossible to discern actions to be taken or what plans to develop.

The multi-billion-dollar company recognized the problem and developed a plan of action to change its processes and technology. The supply chain team started, as those at many companies do, with the company’s ERP system. However, this led down the same worn path; the team found that many of the answers they were promised were not available or had to be custom developed. The company turned to expansive spreadsheets to augment the ERP implementation. This approach led to more time spent seeking out formula and data-entry errors than proactively planning the supply chain.

Figure 1: Barriers and Business Pains for the Supply Chain Leader

![Figure 1: Barriers and Business Pains for the Supply Chain Leader](source: Supply Chain Insights, February 2014)
In May of this year, Gartner, Inc. released the findings from its 2014 Supply Chain Top 25 research. “2014 marks the 10th year of our annual Supply Chain Top 25 ranking,” said Stan Aronow, research vice president at Gartner. “As we reach this milestone, we have several longtime leaders with new lessons to share and a number of more recent entrants from the high-tech, consumer-product and industrial sectors in the Top 25.”

The top-five-ranked organizations in 2014 include four that topped the list last year – Apple, McDonald’s, Amazon and Unilever – plus another familiar leader, P&G. Two new companies joined the Top 25 this year, with Seagate Technology (No. 20) appearing for the first time and Kimberly-Clark (No. 21) re-emerging after a year’s hiatus.

Apple took the No. 1 slot again, its seventh year running, continuing to outpace everyone else by a wide margin on the composite of financial and opinion measures used (see Table 1). McDonald’s landed at No. 2 for the second year in a row, followed by Amazon.com in the third spot.

The rankings comprise two main components: financial and opinion. Public financial data gives a view into how companies have performed in the past, while the opinion component provides an eye to potential and reflects future expected leadership, a crucial characteristic. These two components are combined into a total composite score.

Gartner analysts derive a master list of companies from the Fortune Global 500 and the Forbes Global 2000, with a revenue cutoff of $10 billion. Gartner then pares the combined list down to the manufacturing, retail and distribution sectors, thus eliminating certain industries, such as financial services and insurance.

**2014 Trends**

Gartner analysts highlighted three standout trends for supply chain leaders in 2014:

- **Understanding and Supporting the Fully Contextualized Customer.** An enduring trait of leading companies is that customer needs and behaviors serve as the starting point for go-to-market and operational support strategies. The best of them present simple, elegant solutions to their customers, driven by conscious supply chain orchestration behind the curtain. Their center-led cultures enable consistently high-quality customer experiences tailored, where important, to local tastes.

- Supply chain leaders are expanding this demand-driven concept in terms of how they relate to their customers. It is about understanding customers in a deeper way and blending seamlessly into their daily routines. Ultimately, a deeper understanding of customers in their local environments is helping supply chain leaders capture more revenue for their businesses and improve operational effectiveness.

- **A Convergence of Digital and Physical Supply Chains Delivering Total Customer Solutions.** Leading companies have moved past selling only discrete products or services to their customers and are now focused on delivering solutions. Regardless of industry, these companies want their customers to be loyal subscribers to their solutions. Several of the leading consumer-product companies on this year’s list are offering e-commerce subscriptions for their products, in partnership with retailers, to create a seamless multichannel experience. This approach offers convenience and privacy to end customers that would normally buy these products in a physical store and might switch to another consumer brand during any given store shopping visit.

The more progressive industrial companies have suggested order replenishment systems with their dealer networks, based on a superior ability of the manufacturer to forecast demand for their dealer. Some have gone further and are now acting as virtual consultants to their customers’ planning organizations. They recognize that helping improve customers’ internal capabilities is part of a total solution, making them more competitive suppliers.

“Another significant aspect of the total customer solutions we see deployed by leaders relates to the remote management of aftermarket services, leveraging Internet connectivity,” said Debra Hofman, research vice president at Gartner. “The Internet of Things allows for monitoring of performance across the value chain, in the field at customer sites, but also to collect and analyze the big data generated...
as part of upstream manufacturing and logistics flows. This additional connectivity has also elevated the importance of supply chain security to prevent theft, counterfeiting and other forms of fraud. One thing is clear – future supply chains must seamlessly integrate the digital and physical worlds of customers to be competitive."

**Supply Chain as Trusted and Integrated Partner.** Growth is a top priority for the C-suite in 2014, with 63 percent of senior executives picking growth as a top imperative in Gartner’s 2014 CEO Survey. Leading supply chains are enabling this growth both organically and through successful M&A integration. At the same time, supply chain leaders are emerging as trusted and integrated partners to business groups. Their focus on profitable growth often leads to smarter, more conscious decision-making, saving business groups from spiraling out of control in the drive to maximize revenue.

However, in the quest for growth, many companies are finding the business models they were famous for dominating are now under attack from competition. Supply chain has a large part to play in enabling the business to compete for the future, concurrent with protecting existing business. The most advanced companies in Gartner’s ranking are not afraid to rethink the design of their global supply networks if that is required for success. In some cases, this has led to increased vertical integration, where leaders are getting into their customers’ and their suppliers’ businesses in an attempt to dominate value chains, redrawing the lines of competition in the process.

“Deeper contextual understand-

Continued on page 26

### Table 1. The Gartner Supply Chain Top 25 for 2014

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Peer Opinion (188 voters)</th>
<th>Gartner Opinion (32 voters)</th>
<th>3-year weighted ROA (25%)</th>
<th>Inventory Turns (15%)</th>
<th>3-year weighted Revenue Growth (10%)</th>
<th>Composite Score (5)</th>
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<tr>
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**NOTES:** Gartner Opinion and Peer Opinion based on each panel’s forced-rank ordering against the definition of “DDVN Orchestrator.” Return on assets (ROA):[((2013 net income/2013 total assets)*50%) + ((2012 net income/2012 total assets)*30%) + ((2011 net income/2011 total assets)*20%)]Inventory Turns: 2013 cost of goods sold/2013 quarterly average inventory.Revenue Growth: [(change in revenue 2013-2012)*50%] + [(change in revenue 2012/2011)*30%] + [(change in revenue 2011-2010)*20%]. Composite Score: (Peer Opinion*25%) + (Gartner Research Opinion*25%) + (ROA*25%) + (Inventory Turns*15%) + (Revenue Growth*10%)2013 data used when available. Where unavailable, latest available full-year data used. All raw data normalized to a 10-point scale prior to composite calculation. “Ranks” for tied composite scores are determined using next decimal-point comparison.

Source: Gartner (May 2014)
CORPORATE AMERICA is already aboard the sustainability train.

If manufacturers and retailers have not already heightened their “green” practices, they are talking about what they plan to do. They are working (through their own goals or because of customer demands) to ensure the entire supply chain moving their products is embracing sustainability.

Warehousing is in their sights. Big warehouses require a lot of energy, and companies want to tout that they are working with sustainable partners.

Enter the IWLA Sustainability Council. This group, led by volunteers from varying-sized warehouse logistics companies, is focused on educating warehouse owners and operators about best practices for saving energy and conserving resources.

“We want to make sustainability easy and accessible to IWLA members,” says IWLA Sustainability Council Chairman Jeff Smith, president of Allied Logistics in Huntington, W.V. “I think this industry is behind, and now it’s time to catch up and align ourselves with the same corporate values that our clients hold.”

**Council Initiatives**

The IWLA board recently approved the council charter. This document maps out initiatives, including helping IWLA members who have little or no expertise in energy management start a sustainability program in their organizations.

“We approached the program with a business mentality. Energy efficiency can be costly and sometimes the return is not there. We designed a program to help business owners build a case, financially and culturally, to understand what makes sense for them,” Smith says.

The charter points to the IWLA Sustainability Commitment Program as a guiding document to start or investigate a sustainability program. The program walks executives through understanding what sustainability is, the process of becoming more sustainable, and how to transform sustainability into a value-add within each organization.

“Everyone approaches things differently. This document is full of ideas and resources to help members form their own approach and make sustainability work for them,” Smith says. (See sidebar.)

**Results**

While resources and education are the council’s foundation, the group found that warehouses needed a way to measure their sustainability success.

“How can you know if you are making progress?” Smith asks. “IWLA members serious about their sustainability initiatives should have a resource to track energy management and document their success.”

Council members are encouraged to track progress as closely as they please. “We left the measurement side of the program open to interpretation, realizing that every company is different and has different resources available,” he says.

However, the council is encouraging measurement in order to develop case studies and articles focused on best practices. The more anonymous feedback and information the council collects, the more information sharing can take place.

One way the council plans to collect information is through an annual survey. This survey, in simple yes/no format, will ask members about specific areas of sustainability. It also serves as a guide for what members can be doing to improve a warehouse’s footprint.

**The IWLA Sustainability Council Commitment Program outlines the components of a successful sustainability plan:**

- Establish a budget.
- Form a committee in your warehousing organization.
- Develop a corporate sustainability policy.
- Keep an inventory log.
- Tap into existing state and government incentives.
- Review and use a matrix of vetted online resources.
“The hope is that people will fill out the survey and tell us where they are on the scale. What was successful for you? How much was saved? How did this improve your operations or employee satisfaction?” Smith says.

Survey results will allow the IWLA Sustainability Council to report on trends and identify additional resources. The council may also use this information to create a recognition program to give members a formal way to tout their energy-management programs to clients.

Experts and Partners

The council will also look to supplier partners and to sustainability experts to help warehouse logistics operators maximize their efforts.

“We don’t want to re-create the wheel. There is a lot of information that we can draw from,” Smith says. “The council will bring in subject-matter experts who have experience in the field and can share data and strategies that are proven to work.”

Already the council has developed partnerships with the U.S. Environmental Protection Agency’s ENERGY STAR Program and the Environmental Defense Fund. Both groups have opened the IWLA Sustainability Council to experts, data and credible resources.

“It’s a win-win. They have the knowledge and we are providing them an audience that is interested in sustainability,” Smith says.


Morgan Zenner is the IWLA senior coordinator of marketing and public relations. She can be reached at mzenner@IWLA.com.

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The company turned a corner, though, when it implemented a best-of-breed supply chain solution to manage demand, inventory, manufacturing and replenishment planning. Besides greater depth and breadth of capabilities, analytics embedded throughout the system delivered the right information to the right user at the right time to drive actionable insights. The supply chain team went from using a reactive, error-checking process to a proactive planning process that now allows the team to focus on the metrics that matter.

This increased level of insight and supply chain visualization helped the company understand the impact of each decision, delivered greater clarity on actual versus forecast results, improved manufacturing throughput by discovering missed capacity, and helped reduce inventory while still meeting service-level requirements.

Summary

To stay in front of the market, supply chain teams must do a better job of looking forward and planning ahead. Supply chain analytics go beyond providing KPIs on what has happened, to help predict what will happen. Analytics minimize guesswork and improve strategic, tactical and operations decision-making.

Advanced supply chain analytics utilize sources of structured and unstructured data to deliver rapid insights that help companies identify trends, spot potential disruptions and detect competitive threats in advance. Analytics everywhere is about delivering the right information to the right people whenever and wherever they are.

Does your supply chain team have instant access and visibility to the data that matters across the enterprise, its partners and suppliers? If not, the time has come to go beyond control towers and spreadsheets to basing strategic actions on analysis of all the data, all the time.

Karin Bursa is a vice president at Logility, a provider of collaborative supply chain management solutions.

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Communicate with Power: Master the Unconscious

By Chip Scholz

MOST communication is unconscious. You may think you’re delivering clear and consistent messages based on your words, but unconscious nonverbal behaviors are key to communicating with power.

Startling advances in brain science have made it possible for us to gather and test evidence as we uncover the unconscious mind’s amazing strengths.

While our conscious brains can handle some 40 bits of information per second, the unconscious mind processes an astounding 11 million bits per second.

Evolution has given our unconscious minds the ability to handle most incoming cues automatically and rapidly, thus freeing our conscious minds to make complex decisions. Much of this activity occurs instantaneously, nonverbally and unconsciously.

Your unconscious mind is at work when:
• You quickly brake or swerve to avoid an object in the road.
• You physically shift position to mirror a colleague’s posture.
• You and a friend simultaneously blurt out the same phrase or idea.
• You have a gut feeling that the person speaking to you is concealing information.

Without the participation of your unconscious mind, you’d react too slowly to avoid danger, would have a hard time relating to others and would be unable to read emotional cues that detect lies or authenticity.

The same holds true for leadership communication. If you rely solely on your words, you’re missing opportunities to inspire others. Studies continue to confirm that listeners perceive a message’s meaning largely through nonverbal, subconscious processing.

Despite all of this research, some of us cling to the notion that we rule our unconscious minds, and not vice versa. In truth, we make most decisions unconsciously, becoming aware of them only when we start to act upon them.

■ What Science Reveals

“We create a leader to make us feel safe and to give us a group purpose or direction. Because, like a group of fish or birds or zebra, we need and want guidance.”


We make decisions unconsciously, becoming aware of them only when we start to act upon them.

Nonverbal communication was vital – and still is. Recent scientific breakthroughs have changed conventional wisdom about how we communicate with others, how we interpret what they say and how we discern leadership potential. Some of the more interesting findings include:
• We gesture before we consciously think about doing so.
• The mirror neurons in our brain fire when we observe others experiencing emotions, and we wind up experiencing similar feelings. These “contagious emotions” allow us to connect with one another, experience empathy and anticipate thoughts.
• If you lose your ability to process emotions, you’ll also lose your capacity to remember or decide anything.
• You emit low-frequency sounds that align with the most powerful person near you through matching vocal tones.
• When you’re involved in a negotiation, the measurable nonverbal signals associated with your confidence level more accurately predict success or failure than the relative merits of your position or words.
• Neurons are distributed throughout your body, not just in your brain. Sensitive neurons live in the heart and gut.
• When you communicate with someone else, your brain patterns align – even if you happen to disagree.

These findings are critically important to anyone who aspires to assume a leadership position. Your influence expands when you harness the power of unconscious communication: your body language, hand gestures, facial expressions and vocal qualities.

Always remember that people are naturally drawn to leaders who establish trust and confidence through powerful communication cues. These unconscious elements affect the messages you send and receive.
7 Power Cues

While it's nice to believe in personal autonomy, most of us have an exaggerated sense of what we control—particularly our thoughts and feelings. We can, however, learn to master leadership communication by becoming more aware of unconscious mental activity. You'll be rewarded with greater control of conversations, meetings and personal interactions.

While mind control isn't in the cards, you can learn to become more intuitive. As Morgan asserts:

“Power in human communications and relations is indeed determined largely by the interplay of our unconscious minds...You can learn how to literally synchronize other’s brain waves with your own.”

He encourages leaders to master seven essential power cues for better communication:

1. Self-Awareness: How do you show up when you walk into a room? Take control of your presence, and change both your thinking and the messages you send to those around you.

For a long time, we’ve misunderstood the importance of gestures. Researchers previously thought the gestures that accompany speech were meaningless. We now know they’re meaningful and that they precede speech by a nanosecond or two.

The first step in communication mastery is assessing your posture, physical presence and gestures. Keep a diary or take video of yourself to evaluate (as objectively as possible) how you appear to others.

Self-assessment of your confidence, intuition and charisma starts you on the road to mastering leadership communication.

2. Nonverbal Communications: Take charge of your nonverbal communications to project the persona you desire.

Nonverbal behaviors are a natural expression of our feelings. Which emotions do you convey through body language during important moments, conversations, meetings and presentations? When you share your emotions, you can actually control a group's mood.

Admittedly, it can be hard to think consciously about body language. Start by focusing on your emotions. Ask yourself how you feel about the issue at hand. Focused emotions greatly increase charisma. Prepare your emotions for important meetings, conversations and presentations, just as you would organize your content.

When you’re clear about your emotions, your body language will communicate them naturally. Others pick up on your emotional cues through their mirror neurons. You essentially “leak” your emotions to them.

3. Unconscious Messages: Read others’ unconscious messages. Observe your own mirror-neuron experiences. Become attuned to the hidden messages sent out by everyone around you.

4. Leadership Voice: You can turn your voice into a commanding instrument that helps you take charge of a room. Fine-tune your voice to lead your peers.

Each of us emits low-frequency sounds when we speak—tones that help convey our leadership presence. People unconsciously defer to leaders who produce stronger low-frequency sounds.

You can learn to increase your voice’s leadership potential through breathing dynamics, vocal exercises and practicing vocal tonality. Some leaders choose to work with a voice coach.

5. Social Signals: The fifth power cue combines your voice and a host of other social signals to greatly increase your success in pitches, meetings, sales situations and the like. What signals do you send out in work and social situations? Establish the right levels of energy and passion to win the contract, negotiation or raise.

MIT researchers have pinpointed four patterns of behavior that predict success or failure in key human interactions:

A. Influence – Boost your positional power, emotion or expertise. Control the give-and-take tempo of a conversation.

B. Mimicry – Consciously copy others and then lead them.

C. Activity – Focus more intently on the conversation, meeting or presentation.

D. Consistency – Increase your consistency to gain support; decrease it to show openness.

6. Unconscious Reprogramming: Use the power of your unconscious mind to make decisions, rid yourself of phobias and fears, and create a more successful persona. You may need to craft and repeat a positive mantra to program your thinking. Is your unconscious mind holding you back or propelling you forward? Shed your unconscious mind of the blocks and impediments to success.

Your unconscious mind determines your emotional attitudes, which either help or limit you as a leader. You can take charge of your inner dialogues by replacing negative self-talk with positive self-talk. Take charge of your posture and facial expressions through practice.

7. Synchronize with Stories: Put all of the steps together by mastering the art of storytelling. When we tell each other stories, our brain patterns synchronize and people are more likely to listen to you. Stories enhance your natural leadership capacity, increase your charisma and move others to action. Convey your message in ways that align people with you, down to their very brain waves.

A great story is relevant to people’s universal desires and grabs your audience. Select one of the five archetypal stories: a quest, stranger in a strange land, love story, rags to riches or revenge. Tell the story in three acts: dilemma, conflict, resolution. Great storytelling is more art than science because you must invoke emotions.

Leadership Requires Alignment

When you’re more aware of unconscious behavior, you can align your conscious and unconscious messages for improved communication. This increases your authenticity, improves your ability to lead a group, persuades others and maximizes your

Continued on page 30
In today's global environment, it is not uncommon for a logistics provider to be approached with opportunities extending outside of the United States. While international opportunities create unique challenges, the reality is that many customers of the industry are asking their logistics partners to provide services in other parts of the globe. Highlighted below are just a few considerations if you are contemplating such an expansion of your operation.

**Warehouse Law**

Warehouse law in the United States finds its origins in British common law. Unsurprisingly, warehouse law in Canada is based on a similar legal foundation. In fact, the concept of bailee/bailor law, upon which Article 7 of the Uniform Commercial Code (warehouse law) is based, is also prevalent in much of Europe. Warehouse law is regulated at the provincial level in Canada. The majority of Canadian provinces have enacted two acts applicable to warehousing: a Warehouse Receipt Act and a Warehouse Lien Act. The provincial warehouse receipt act addresses the applicability of warehouse receipts and also identifies the duty of care imposed upon the warehouse operator, the "reasonable careful man standard," which is similar to the duty of care identified under law in the United States. The provincial warehouse lien acts provide the ability for the warehouse operator to enforce its warehouse lien in accordance with identified criteria.

It should be noted that there is a universally recognized contractual document in Canada known as the Canadian Standard Contract Terms and Conditions for Merchandise Warehousers. The document is somewhat similar to the American-based Standard Contract Terms and Conditions for Merchandise Warehouses, as it addresses issues such as liability, enforcement of the warehouse lien, rates and removal of the goods. However, the documents are not identical. One of the most significant differences is that the Canadian Standard Contract Terms and Conditions specifies a formula for use when identifying a limitation of damages, as follows:

The legal liability of the Storer or Warehouse shall be strictly limited to the lessor of the monetary amount of the damage incurred or 100 times the monthly storage rate on any one package or stored unit with the contents (or, in cases where the Storer's or Warehouse's charges are calculated for other than actual storage, maximum $50.00 per unit) unless the Depositor specifically requests a higher limit in writing and declares an excess value, in which case the Storer or Warehouse may, at its option, accept liability and assess an additional charge to the monthly storage or other applicable rate.

While there is an alignment between Canada and the United States in terms of warehousing law, there is no such continuity between Mexico and the U.S.

The limitation of damages as identified in the U.S. document is not based on such a formula, but rather is a defined limitation established by the parties that is often based on a multiple of the base storage rate, an identified cap or a per-pallet rate.

While there is similar alignment between Canada and the United States in terms of warehousing law, there is no such continuity between Mexican and U.S. law.

**Insurance**

Regardless of where you might operate, one of the first issues that you will need to address is insurance, verifying that your insurance coverage will extend outside of the United States. According to Mike McCandless, vice president, logistics practice of the Insurance Management Group (IMG) of Indianapolis, recent advancements have made it more feasible to comply with foreign insurance laws. However, it is critical that you verify requirements in the foreign jurisdiction. McCandless states, “In Canada, for example, the ten provinces and three territories have dual regulatory requirements pertaining to insurance, which have all been developed independent of each other. There are federal regulations and a different set of local regulations. Failure to adhere to a specific insurance regulation could result in a substantial financial penalty. Further-
more, if considering a business risk in Mexico, it is important to notice that neither U.S. nor Canadian insurance is recognized by Mexican authorities. Again, financial consequences are possible.” McCandless’ recommendation is to secure specialists with international insurance brokerage capabilities and to identify insurance carriers capable of covering global insurer risks. The reality is; however, that a foreign carrier with a local presence will most likely be needed to provide coverage for operations extending outside of the United States. Endorsements to U.S.-based policies that extend outside of the United States are generally extremely limited and may include exclusions that could result in the endorsements being of little value.

**Labor Law**

Another important consideration is labor – and with that, applicable labor laws associated with the operating jurisdiction. Employee rights and benefits are perceived very differently in other countries. Maternity policies, for example, are more employee-friendly in Canada than in the United States. In addition, employee severance is perceived as an employee right as opposed to a discretionary payment paid by the employer. In fact, Canadian employees are generally entitled to severance regardless of whether or not they receive employment elsewhere. It is also important to note that privacy protections are very prevalent in Canada. Consequently, one must exercise extreme caution when attempting to implement a drug-testing policy in that country.

Likewise, Mexican law provides for certain employee protections that are not perceived as standard in the United States. For example, “at will” employment is not recognized – employers are not allowed to freely dismiss employees without cause. In addition, Mexican severance policies are generally much more liberal than those in the United States.

It is also important to understand unique geographic terminology. A German counterpart recently asked me about “bankers’ hours” in the United States. I proceeded to explain how bankers’ hours were generally a bit shorter than a standard, recognized workday, with recognized federal holidays. In contrast, bankers’ hours in Germany provide the ability to average out a 40-hour work week over two weeks. As long as an employee does not exceed 80 hours over a two-week period, the employee is not eligible for overtime. In other words, an employee could work 60 hours in one week and 20 in the next, and not be entitled to overtime pay, as the 80-hour threshold was not exceeded for the two-week period.

**Regulatory Oversight**

Although certain countries may have stronger employee labor/benefit protections than what are prevalent in the United States, worker health and safety protections as recognized and enforced by OSHA in the United States are generally much stronger and offer greater employee protection than those found in other areas of the globe.

In addition, one should be aware of the challenges associated with regulated products and hazardous materials. Whereas EPA and DOT regulation is prevalent in this country, regulation and oversight differ in other countries. In recognition of the challenges associated with regulated products, the United Nations adopted the United Nations Global Harmonization Standard (GHS) in 2003 as an international model for: (i) chemical hazard classification; (ii) hazardous chemical labeling; and (iii) safety data sheet (e.g., MSDS) formatting and content. The global harmonization standard is to be utilized on a worldwide basis in an effort to create greater uniformity, clarity and consistency among parties involved in the storage and handling of hazardous chemicals.

OSHA has adopted several principles of the GHS as part of a Hazard Communication amendment that identifies a specific format for material safety data sheets (MSDS) and their content. Information to be included on MSDSs shall consist of the following: (i) identification of the supplier and the mixture/ substance; (ii) hazard identification; (iii) composition/detail pertaining to the mixture/ substance ingredients; (iv) first aid measures; (v) firefighting measures; (vi) accidental release measures; (vii) handling and storage; (viii) personal protection and exposure controls; (ix) physical and chemical properties; (x) stability and reactivity; and (xi) reactivity. It is also suggested, but not required, that ecological information, disposal considerations, transport information and regulatory information be included on the MSDS. The GHS is recognized as a necessary, positive step toward developing and implementing continuity and consistency as to how regulated product is handled and regulated across the globe.

Highlighted above are just a few of the considerations associated with international logistics operations. As manufacturers pursue opportunities in other countries, they may ask their logistics partners to follow suit. Although there are challenges associated with an international logistics operation, awareness of the issues highlighted here will prove beneficial when contemplating business expansion outside of the United States.

Ann Christopher is Vice President & Legal Counsel at Kenco in Chattanooga, Tennessee.

**LEADERSHIP from page 28**

personal impact.

As Morgan notes:

“No one gets led anywhere they don’t want to go. Machiavelli was wrong; leadership is not manipulation, not in the long run. It’s alignment, the leader with the group and the group with the leader. But you first have to maximize and focus your leadership strengths in order to be ready when your moment comes.”

Chip Scholz is head coach of Scholz and Associates, Inc. and serves on the IWLA board of directors.
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