



Supply Chain Challenges

Years ago, supply chain management was all about just-in-time procedures. This was followed by outsourcing and then the Internet. Supply chain expert David Simchi-Levi, a professor at MIT, had some interesting comments recently on the future of supply chain management. David has outlined several trends and challenges affecting supply chain design in a recent interview for MIT Sloan Management Review.

There are six trends, and they all present challenges to thinking about supply chain management. The first is globalization, an old force that continues to morph and that is producing longer and longer lead times.

The second is the significant increase in logistics costs, due to changes in transportation cost and inventory. In the last five years, transportation costs have increased by more than 50% because of energy prices. Inventory increased by more than 60% between 2002 and 2008. It's directly tied to the rise in transportation costs: as transportation costs increase, companies try to take advantage of economics of scale by shipping large quantities.

The third trend is the increase in the level of risk that many companies are exposed to. This flows from embracing strategies like lean manufacturing and outsourcing and offshoring. Lean typically implies low level of inventory, and that means that when there is a disruption, the supply chain cannot meet supply and demand. Similarly, offshoring and outsourcing imply that the supply chain is geographically more diverse, and therefore, exposed to all sorts of disruption.

The fourth trend is a significant increase in labor cost in developing countries. In the last 20 years, globalization, of course, has been the focus for many companies, but it was premised on an underlying assumption

that it was low-cost manufacturing. But if you look at the last five years, the labor cost in China increased 20% year by year, on average. By comparison, it was up by 3% in the U.S. companies that made production-sourcing decisions five years ago based on labor costs may need to revisit their decisions.

The fifth trend is the way companies are starting to focus on sustainability. It's especially acute in Europe, which has a developing so-called green supply chain. In some industries this will play out as an increase in regulations companies have to follow, and will require thinking about how much carbon your supply chain produces.

The sixth trend, which is very important, is a significant increase in the volatility of commodity prices. Volatility is a big challenge for companies because when you're procuring any commodity from oil to coal to steel and you need to sign a contract, it's not clear if you should seek a commitment that's long term or short term. If you sign a long-term contract, you need to outguess the market.

It's the combination of all these forces that makes managing the supply chain an enormous challenge. If I told you that you needed only to deliver on globalization, you'd say, "no problem," and weigh low cost versus long lead time. But what if on top of that I told you that you'd now also need to keep in mind that as you have longer lead time, you're exposed to different types of risk, and, by the way, the labor cost savings from shifting work to Mexico, for example, have shrunk?

There is one additional dimension that needs to be emphasized. All advantage is temporary. Over time, implementation will have to change. Life is not easy.

Special points of interest:

- Supply Chain Challenges
- Blocking Texting & Driving
- Canada's Economy
- Virginia Rest Stops
- Truck Tonnage
- Truck Stop Electrification

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Texting and Driving



“Laws, mandates and policies cannot force compliance with the issue of distracted driving.”

As more and more jurisdictions pass regulations about texting or talking on cell phones while driving, new technology will make these rules enforceable. Applications for commercial drivers are part of a new mix of products that will help win the battle against distracted drivers.

If governments can't trust drivers to voluntarily set aside their handsets while operating a motor vehicle; the answer is to render cellular connections inoperable.

The basic functions of the new systems are largely the same: when movement is detected by cell phones or other personal communication devices, outgoing text messaging is shut down and incoming messages are saved until the motion has stopped. The technologies present to make motion-tracking possible are already in many smart phones: Global Positioning Systems, accelerometers and Wi-Fi transceivers. Voice calls can also be restricted. Certain programs direct inbound calls to voice mail or greet them with a message informing callers that the subscriber is driving and cannot accept calls.

None of the current systems block outbound 911 emergency calls and most of the programs can be tailored to allow limited inbound calls.

Some of the suppliers of these new systems allow for hands-free calling. For busi-

ness travelers and commercial truckers, this hands-free capability allows for a measure of productivity while driving.

Commercial carriers that wish to monitor usage by their drivers can program their phones for a number of allowable applications. At a certain speed, the GPS will detect motion and terminate all text and e-mail applications while still allowing hands-free voice communications. This customizable programming allows fleets an opportunity to manage risk and liability.

While these programs are still in their infancy, there is debate over which technical framework is best. The technology can either be loaded into the wireless carriers' networks or downloaded directly to cellular phones. Network-based platforms could take some time to be implemented owing to potential regulatory and development delays. Phone-based applications could be significantly cheaper and place less demand on overburdened networks. Regardless of the platform, it is important that these new technologies are brought to market as soon as possible. Laws, mandates and policies cannot force compliance with the issue of distracted driving.

The issue of distracted driving is greater than you might think. Recent studies have shown that reaction times while texting are worse than while driving under the influence! A solution must be found.

Canada's Improving Economy

One of the reasons for increased commercial traffic on Highways 401 and northern Interstate 81 is the burgeoning Canadian economy. Canada's economy expanded at a 5% annualized rate in the 4th quarter, faster than predicted by the Bank of Canada. Gross domestic product grew at the fastest pace since the third quarter of 2000. This economic growth will probably lead to the central bank raising interest rates in the second half of the year.

The growth in Canada's economy is widespread, fueled by consumer spending,

capital investment and trade, and government spending. Consumer spending rose 0.9% in the quarter with significant spending increases in durable goods such as furniture and cars and increased investments in housing.

Exports were very strong during the fourth quarter led by the automotive sector with an increase of 13%. Also contributing to increased freight movement was a 2.2% increase in imports.



Truck Stop Electrification

There has been much written about the need for electrification of truck stops along major highways to lessen the emissions from truck engine idling. Recently, IdleAire, the largest vendor in the U.S. went bankrupt, leaving more than 8,000 parking spaces vacant at 134 locations. A number of smaller companies may be able to fill this void as long as finance can be found for their expansions.

There is still a tremendous opportunity for truck electrification companies despite IdleAire's failure because of the environmental benefits of making electric power available to parked trucks. There has to be a critical mass of availability to get fleets and owner-operators interested. No one will be interested unless they can get to a convenient plug-in spot at an affordable price.

Currently, vendors offer two solutions for truck stop electrification. One is heating and cooling bundled with other services, such as Internet or cable television. This is accomplished through a duct connection system like IdleAire provided, but rather than IdleAire's offerings of pay-per-view movies and hundreds of channels, the survivors that use the duct system provide only heating, air conditioning and basic Internet or cable television services.

Another solution that has been employed at marinas around North America for years is a shore power system. As in the boating industry, a simple plug-in cord will provide power to the truck cab to operate air conditioners, heaters and other 110-volt appliances. As in many upscale marinas, certain providers can provide a dual-service tower that will deliver all the services of a duct connection system. This service will require onboard equipment in the trucks but initial cost should see a quick operational payback.

IdleAire received \$55M in federal funding to build facilities over the nine-year life of the company. For the smaller companies still in business today, ultimate success will be based upon their abilities to raise federal, state and private funds. It makes a great deal of sense for stimulus funds to be made available for infrastructure for these systems, either in the trucks or at the truck stops.

The demise of IdleAire does cause some problems for the remaining companies. Financing company growth will depend on investor perceptions. Did IdleAire fail because the need wasn't there or was their business model wrong? Only time will tell.



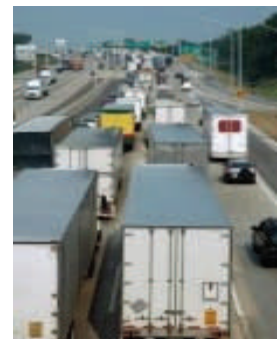
“There is still a tremendous opportunity for truck electrification companies because of the environmental benefits.”

Truck Tonnage Up

U.S. truck tonnage rose 5.7% in January from the same month last year, the second straight year-over-year increase following more than a year of comparable declines. The American Trucking Association's (ATA) seasonally adjusted for-hire truck tonnage index rose 3.1% in January from December, following a 2.1% gain in December from November. The year-to-year gain in December had been 6.6%. January's year-to-year gain was the best such reading for the month of January since 2004-2005.

8.7%, the largest since a 12.3% plunge in 1982.

ATA Chief Economist Bob Costello said that the latest tonnage reading, coupled with anecdotal reports from carriers, indicates that both the industry and the economy are clearly in a recovery mode. Costello expects slower growth in the near term but overall he feels the industry is now moving in the right direction.



For 2009, the tonnage index was down



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Virginia Re-opens Four Rest Areas

VDOT has reopened four rest stops along Highway 81 that the State closed last summer due to budget cuts. Based upon a unanimous decision by the Commonwealth Transportation Board in January, additional rest stops that had been closed will also reopen by April 15.

This is good news for all passenger vehicle operators and truckers alike. Currently there are shortages of truck parking spaces along I-81. It makes no sense from a safety perspective to remove these vital parking spots.

The Virginia DOT will use \$3M from its maintenance reserve fund to operate the facilities until June 30. Long-term funding options will be presented as part of this spring's budget.

VDOT will continue to pursue innovative ways to defray operational costs including an "Adopt a Rest Stop" program to permit private sector contributions. The State also plans to use non-violent inmate work crews for maintenance, landscaping and rest stop repair.

Notes From The Director

The Capital Corridor will be hosting our second spring conference on June 14 & 15, 2010. The event has been expanded to two days this year as one day was not deemed sufficient to cover all the topics that we need to address. Last year's conference was held in Watertown, NY in April. This year, we are moving the location to the Riveredge resort in Alexandria Bay, NY, right in the heart of the 1000 Islands. The June date will allow us to host a Monday evening reception at Boldt Castle as well as allowing conference attendees to come in early to explore the beauty of the 1000 Islands. For those readers who may not be aware, Boldt Castle is on an island and is one of the major attractions in the area. The Thousand Island Bridge Authority will be sponsoring the reception and self-guided tours of this amazing edifice will be available.

The conference itself will feature a number of excellent speakers and program topics that will appeal to a broad spectrum of attendees. Some of the topics that will be covered are:

- The role of universities in a knowledge-based economy
- Tourism to 2012: Boom or Bust?
- Secure Borders and Open Doors
- Economic Development: Can we work collaboratively?
- Young Professionals: How do we engage, retain and attract?

Each of these topics will be of interest to those on both sides of the border. We look forward to seeing you in June.



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