Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, DC 20515

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June 20, 2013

SUMMARY OF SUBJECT MATTER

TO: Members, Panel on 21st Century Freight Transportation
FROM: Staff, Panel on 21st Century Freight Transportation
RE: Panel Hearing on "How Logistics Facilitate an Efficient Freight Transportation System"

PURPOSE

The Panel on 21st Century Freight Transportation will meet on Wednesday, June 26, 2013, at 1:00 p.m., in 2167 Rayburn House Office Building to receive testimony related to the impact of the logistics industry on the U.S. freight network. At this hearing, the Panel will receive testimony concerning the correlation between logistics and a productive, efficient, and safe National freight system, and will hear suggestions on ways to strengthen this relationship. The Committee will hear from David Abney, Chief Operating Officer of the United Parcel Service; Tracy Rosser, Senior Vice President of Transportation for Walmart; Edward R. Hamberger, President and Chief Executive Officer of the Association of American Railroads; Scott Satterlee, Senior Vice President of Transportation for C.H. Robinson Worldwide; Mark DeFabis, President and Chief Executive Officer of Integrated Distribution Services; and Richard Fisher, President of Falcon Global Edge.

BACKGROUND

Logistics is the planning, execution, and control of a complex organization involving many different moving pieces and interests, all within a system designed to achieve specific objectives. According to the Council of Supply Chain Management Professionals, logistics management is the part of supply chain management "that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements."[1]

The U.S. freight system moves nearly $19 trillion worth of goods each year. These products frequently move back and forth between ocean vessels, highways, railroads, air carriers,

[1] CSCMP Supply Chain Management, *available at* http://cscmp.org/about-us/supply-chain-management-definitions.

inland waterways, ports, pipelines, warehouses, and distribution centers. Logistics providers play a key role in alleviating inefficiencies and bottlenecks, which can impede freight mobility and drive up the cost of the impacted goods. By optimizing the movement of freight across all modes of transportation, the logistics industry helps ensure the health of the United States economy and the future of the Nation's global competitiveness.

What the Logistics Industry Does

The logistics industry adds value to the supply chain by improving the planning, implementation, and control of the flow of goods from point of origin to point of consumption. Today, nearly all of the Nation's top executives have some form of logistics strategy. Every Fortune 100 company, and 80 percent of all Fortune 500 companies, employ at least one third-party logistics (3PL) provider to improve their operations.[2] In 2011, domestic spending in the logistics and transportation industry totaled nearly $1.3 trillion, roughly 8.5 percent of the Nation's gross domestic product. The growth of the logistics industry far outpaces that of the economy at large, further emphasizing the important value that logistics can have in facilitating the efficient movement of goods.

Third-party logistics providers are also known as freight forwarders or transportation intermediaries. Depending on the industry in which a 3PL operates, the 3PL may also be known as a broker (if involved in the trucking industry), a Non Vessel Operating Common Carrier (if involved in the maritime industry), or an indirect air carrier (if involved in the air freight industry). Despite all of these different names, the essential function is the same. At its most basic level, a 3PL is an entity that facilitates the movement of goods.

History of the Logistics Industry

One of the earliest 3PLs was the Company Limited of London, established in 1836 by Thomas Meadows.[3] Meadows recognized the demand for these intermediary services as the rail transportation and steamship industries expanded. As trade increased between Europe and North America, Company Limited arranged for the transportation of goods from manufacturers to the steamships. The logistics provided by Company Limited, however, soon expanded beyond the mere carriage of goods. Meadows realized the value that additional information could offer, and soon began consulting with his clients on documentation and customs requirements in the country of destination.

Since Company Limited, 3PLs have traditionally operated as non-asset based companies that arranged for the transportation of a shipper's goods with another company that owned and operated a common carrier. Today, many 3PLs also operate their own trucks, aircraft, warehouses, and distribution centers, in addition to offering the traditional logistical advice and analysis that is the hallmark of the industry.

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[2] Statistics used in this memorandum are taken from the U.S. Department of Commerce, the Transportation Intermediaries Association, the International Warehouse Logistics Association, and the Airforwarders Association.
[3] Thomas Meadows & Company, *Understanding the Freight Business* (London: The Company, 1978).

THE IMPORTANCE OF LOGISTICS

Put simply, the logistics industry is valuable to the Nation's freight system because logistics improve the efficiency of the supply chain. To name just a few real-world applications, the use of logistics can ascertain the best mode, or combination of modes, to move a particular product to a particular location, give a small carrier access to a large shipper's freight, reduce the number of empty containers a trucking company has to carry, eliminate the need for operating distribution centers in-house, and maximize warehouse layout and productivity. By carefully collecting and analyzing data about the supply chain, logistics providers can identify areas of lost efficiency and develop strategies to move goods more intelligently.

One of the ways that manufacturers and retailers can maximize the value of 3PLs is through the concept of Just-in-Time Delivery (JIT). The idea behind JIT is that business efficiency will be the greatest when carrying costs are minimized. In other words, by delivering goods at the precise moment when they will be consumed, businesses will not need to pay to store the goods before they are used. JIT relies intrinsically on the logistics industry to efficiently forecast and transport the goods at the moment when they are needed. By avoiding the unnecessary storage of inventory prior to its use, the logistics industry can greatly improve the operating efficiencies of the manufacturing and retail industries.

Each year, shippers outsource more of their traffic, transportation, and logistics functions to 3PLs, as these companies can offer better purchasing economies, more sophisticated data analysis systems, and better market knowledge than the shipper can afford to develop internally. Many 3PLs describe themselves as the "travel agents" of the freight system, as they are tasked with planning, overseeing, transporting, and storing their clients' goods and products from one end of the supply chain to the other.

There is one notable exception to the general trend towards outsourcing logistics functions, however. Many of the large big-box retailers have developed complex internal logistics operations. They have found that there are economies of scale in their own operations that increase the profitability of maintaining their own warehouses, distribution centers, and trucking fleets.

WITNESS LIST

David Abney
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United Parcel Service

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Walmart

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