



PEOPLE
to KNOW

2014 STATE OF THE INDUSTRY

TRANSPORTATION
& LOGISTICS EDITION

A look at the
5 key elements
impacting transportation
& logistics today.

 CLARK SCHAEFER HACKETT
CPAs & BUSINESS CONSULTANTS

TRANSPORTATION & LOGISTICS LEADERS AROUND THE TABLE

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2014 **STATE OF THE INDUSTRY** TRANSPORTATION & LOGISTICS

Welcome to our *lite* paper, an observation on the state of the industry, offered by People to Know in Transportation & Logistics.

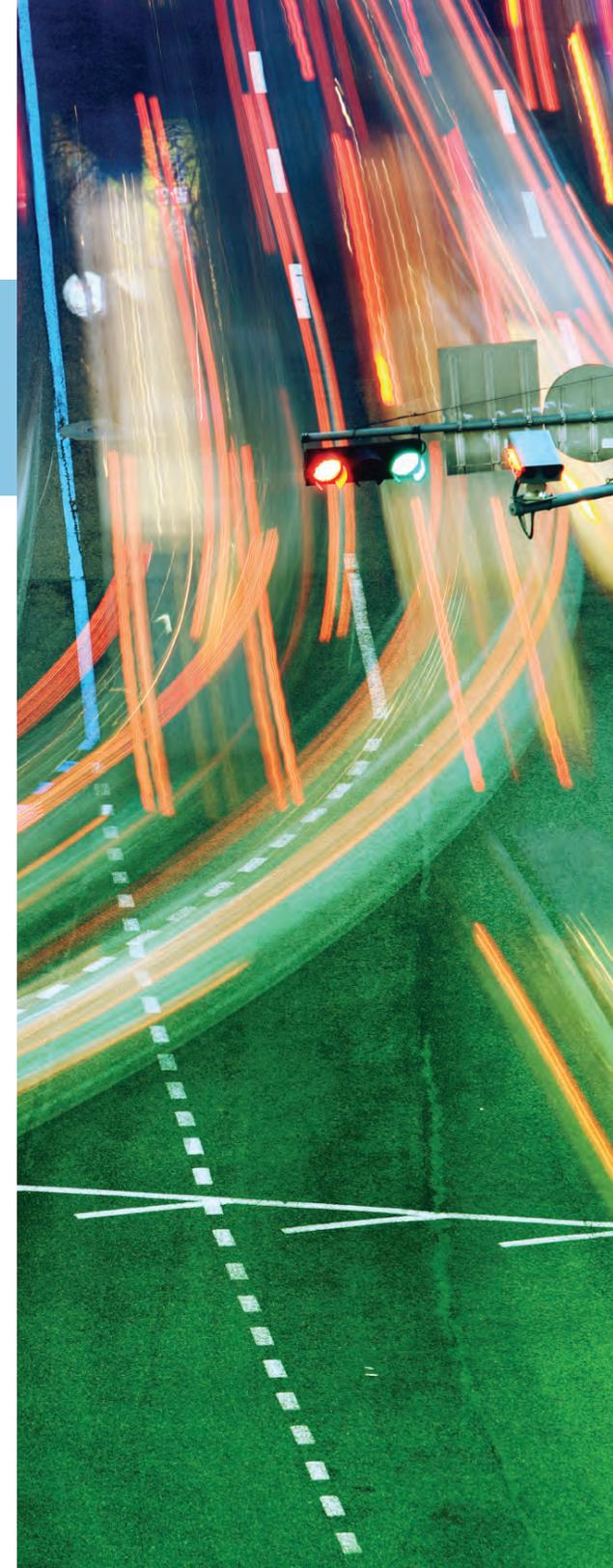
At Clark Schaefer Hackett, we're proud to be industry specialists. We dig deeply into the industries we serve and share the resulting insight for the good of our clients and communities.

When we gathered the select few recently named "People to Know in Transportation & Logistics" we were privy to profound thought, unique perspectives, and intelligent understanding.

These transportation & logistics leaders, recognized as the most influential in Central Ohio, illuminated the universal trends, challenges and opportunities seen nationally across the sector today.

The issues impacting transportation & logistics today, also reflect our society, business and culture.

Exactly how these issues will shape our future is the question that remains.



2014 **STATE OF THE INDUSTRY**

TRANSPORTATION & LOGISTICS

Earlier this year, the consulting firm Regionomics told a newspaper that the growth of the **transportation and logistics industry in Columbus** was an “aberration” because its 43,000 workers represented **35 percent more** than the average for regions of the same size. A quarter-century earlier, the industry employed 17,000.

Indeed, **the future looks bright** in Central Ohio. Retailers continue to view the area as a great place to locate branches of their distribution services. **New warehouses are springing up** and investments in road and rail infrastructure in recent years punctuate the seriousness local leaders have placed upon the industry as a key element to the region’s economic success.

But the industry also is a fluid one, and those working in it face a number of difficulties, including **finding skilled workers, getting students interested in the field**, and providing the additional services their clients are demanding.

Looking down the road, technology could play a greater role in how goods are transported, and **communities are getting smarter** in how they plan for and relieve traffic congestion to improve speed and efficiency. Some entities are also investing in equipment that uses less expensive natural gas to decrease their fuel costs. As the physical and cultural geography changes, **the industry must adapt.**

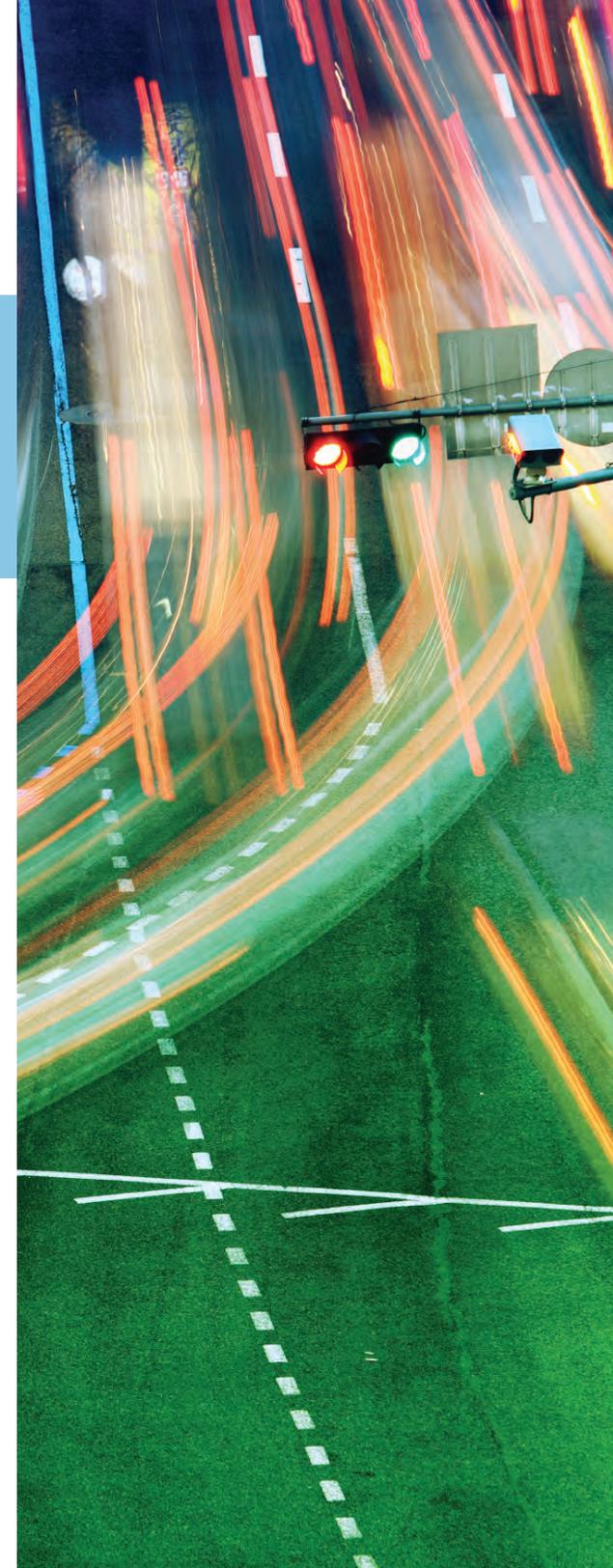


TABLE OF CONTENTS

Challenges and opportunities	pg 1
Using technology effectively	pg 3
Filling the talent pipeline	pg 5
Educating the next generation	pg 8
Exploring alternative fuels	pg 10

CHALLENGES AND OPPORTUNITIES



Adrian Kumar
Exel Logistics

Customers want the Holy Grail of service. They want to receive product the next day, with low cost and high quality. It's a major challenge, compounded by the fact that Omni-channel strategies have added a lot of complexity to distribution. A lot of our customers are seeing major profile changes. In addition to moving pallets and trucks, now they are also doing some form of e-fulfillment or drop ship. We need to convert their operations to facilitate this. To be at the right economic price point, a lot of shipments are going to have to be delivered by USPS. Carriers such as UPS, FedEx, and DHL have strategies to leverage USPS for the final mile.



Steve Youll
Honda Logistics
North America Inc.

NAFTA, the North American Free Trade Agreement, has provided significant opportunities, but at the same time there are significant challenges. Look at interactions with Mexico. We have two auto plants in Mexico, and in January we'll bring on a second shift and start on a second model. What we are finding is that **going into Mexico is a lot different** than our experiences in Canada, where the U.S. is accepted more readily because we import a lot and they buy a lot of goods from Ohio. Going into Mexico is different. The rules, regulations and tax laws are so different from the way that we structure our entity to the way we broker deals. You can't just get in your semi-truck and drive into the country; you need a Mexican partner that has at least 50 percent capacity within Mexico and a Mexican carrier that is regulated by the government. The trucking industry in Mexico is in its infancy compared with the U.S. But as it matures, more goods will get exported from there to here. What does that mean for us? We don't know and it is very hard to nail it down because things are just done differently. It is not bad, but just different.

CHALLENGES AND OPPORTUNITIES



John Alden
AldenLaw

Unscrupulous freight brokerage operations seem to be thriving now, giving the majority of the legitimate companies a bad name. Its prevalence was part of the move to hike surety bonds from \$10,000 to \$75,000 with the hope it would curtail the fraudulent types. The idea that a costlier bond will get rid of the bad guys is ridiculous. The whole industry is negatively affected by the bad brokers and chameleon brokers who are not really brokers but say they are.



Joy Lanham
Lanham Engineering LLC

Maintaining the existing infrastructure out there and seeking innovative approaches to the same are a challenge and an opportunity. When you consider the roads and traffic congestion, driving is downright scary out there, and it can seem a lot worse when there are a ton of trucks surrounding you. So the more safety measures we can design into our infrastructure that protect drivers and move traffic efficiently, the better off we should be. And, let's face it, traffic congestion can impact shipping times. In the Columbus region, you are seeing partnerships between private companies, ODOT and municipalities on road projects that are getting done much faster and much less expensively. Collectively, these types of **collaborations help the truckers, shippers and drivers.**



Beth Snoke
The Ohio State University

We make it too easy for people to drive. Parking is everywhere and it is cheap. Until we come up with some attractive alternatives that are properly funded and designed for the times, we are going to stay where we are in moving people, and moving students around campus. For this reason, we're [Ohio State] thinking about completely redesigning our shuttle service and consolidating all modes of transportation into a single location, promoting the "park once" philosophy. Riding a bus around the entire campus for 30 minutes doesn't cut it anymore. Students want to get there and get there as quickly as possible, and we have to build the infrastructure to support that and provide sustainable alternatives. We [Ohio State] just ordered **our first compressed natural gas transit purchase**, and we have submitted a proposal to build a compressed natural gas station.

USING TECHNOLOGY EFFECTIVELY



Adrian Kumar
Exel Logistics

You may have seen the “60 Minutes” piece about the Amazon Drone making residential deliveries. **We’ll need to see how that develops.** In the meantime, DHL will launch a unique pilot project on the North Sea island of Juist: For the first time worldwide, medications and other urgently needed goods will be delivered to the island at certain times of the day by DHL parcelcopter. This research project represents the first and only time in Europe that a flight by an unmanned aircraft will be operated outside of the pilot’s field of vision in a real-life mission.



Steve Youll
Honda Logistics
North America Inc.

The role of technology itself is somewhat undefined. We have seen significant changes from the truck drivers using technology. They have their electronic logs, GPS, they know where the truck is, and you know where your driver and trailer are at any time of the day. Beyond that, is it going to be predictive modeling for traffic? In our industry, the Mexican corridor has opened up significantly. **By 2017, it is estimated that 20 percent of all vehicles will come from Mexico,** regardless of the automaker. The infrastructure there does not exist.



Josh Ledford
Spartan Logistics

It is astonishing there are companies not using even the simplest of technologies. There are a lot of trucking outfits that do not have GPS. Their drivers are on the road with a cell phone calling in trying to get directions and they don’t even have a simple GPS for the truck route to get them to their destination. I wonder how much their **efficiency would improve by using the most basic GPS system.**

USING TECHNOLOGY EFFECTIVELY



Art van Bodegraven
Discovery Extension Services

Talking about advanced technology is sometimes like putting the cart before the horse. I don't know if this is a North American thing or a cultural thing, but it reflects something that occurs throughout the entire supply chain, not just the world of transportation. Our failure to master the basics of where we are before we move on to the next level, and hoping for a silver bullet that we don't know how to shoot yet has always been a handicap. I would encourage getting really good at blocking and tackling at whatever level we are playing the game, and then look ahead. **After we mitigate the worst of the driver challenge**, it seems we would be better positioned to talk about driverless automobiles on the highways, and the impact of the technology involved on driver shortages down the road?

FILLING THE TALENT PIPELINE



Steve Youll
Honda Logistics
North America Inc.

There are tremendous opportunities out there in this industry, but getting young people tuned-in to them has been difficult. With consolidation of the supply chain, parts are being moved closer to the manufacturer. While this reduces the number of drivers that are required, for example, it doesn't solve the problem on how to get parts from 'here to there' when there's nobody here to ship them. You still are going to need somebody capable of driving the short, medium and long distances. Believe it or not, there are still parts of the country that are not connected to Wi-Fi so you have to have good transportation. The kids we talk with in school want to be doctors or lawyers or entrepreneurs or open up their own brewpub. The reality is that not every kid is going to attend Stanford. But there are plenty of careers for them within the logistics and transportation industry. What they aren't being told is that **truck driving can be a really great career and they could make a lot of money.** There are plenty of highly skilled niche jobs that the kids aren't attracted to anymore, and we must crack that code somehow. It is going to take some time to get that message across because there are not too many people whose dream job is to work in a warehouse.



Josh Ledford
Spartan Logistics

The driver's position is so skilled that someone with a great customer service focus is needed to fill it. **Truck drivers visit customers every day and interact with them.** They are a big part of your supply chain. You can't just have anyone hauling a 53-foot trailer making those trips. You must have someone who is personable, and you must be willing to pay extra for the individual. We are willing to pay extra for that. That driver is, in many ways, more important to a sale than me.

FILLING THE TALENT PIPELINE



John Alden
AldenLaw

Customers don't see the executives every day, but they do see the truck drivers. A lack of drivers equals a loss of time and money. A day does not go by when I don't talk with a client who says they have a portion of their trucks at \$150,000 apiece sitting idle in the back lot because they don't have drivers for them. How to keep that driver pipeline filled is the big question. One thing we have been trying lately in conjunction with a single client and the Ohio Trucking Association is to make it easier for everyone returning from the military to **convert their military CDL automatically to an Ohio CDL** so there is no waiting period. We also are trying to attract people as drivers at earlier ages because of how Ohio law and insurance works. Before one can land a job as a truck driver, the person must be at least 23 years old. That individual might have the skills to drive over the road at 21 years old, but the insurance company demands the person must have two years of training before he can be hired. If I can't get the job I want in my chosen career until I'm 23, I'm going to choose another career. Something has to be done with the state legislature, insurance carriers and everyone else who allows this. Think about it: A kid graduating at 18 who just wants to work as a truck driver has to wait five years at the earliest before he can make that dream happen. It's something to consider when the average age of a truck driver is 55. What's it going to be like in five years when they all start retiring?



Art DeCrane
FST Logistics

The real challenge is finding drivers who are willing to be out on the road for a week or longer. The younger generation just won't do that and we know that is one thing that has to change. We have to get them home daily, or every other day at least, to entice them to want to get into those positions. **The job has changed and it is a difficult one.** When our over-the-road drivers go out, the packet of paper work is very large with all the regulations and customer requirements. Our drivers are on electronic logs, which make for a completely different environment from manual logs. We are one of the few smaller companies that have voluntarily begun utilizing them before they are mandatory, everyone has to be using electronic logs in 2016, It's very complex. There is a lot of activity and a lot of things drivers have to know and for which they assume the responsibility.

FILLING THE TALENT PIPELINE



Art van Bodegraven

Discovery Extension Services

This industry needs to get past the idea that our world is all about order pickers and truck drivers. **It is incredibly more robust than that.** It is the fullness and richness of our environment that is not being sold. We focus on the truck drivers a lot because that is immediate, but there are a half a dozen things we ought to be doing right now and simultaneously in that arena alone. Even if we did, however, it would not address the long term. It is endemic throughout our industry, not only with the drivers or the people who work in distribution centers, but in analysts and all kinds of people who aren't going to walk in the door and be ready to become the global vice president of supply chain management.

2014 **STATE OF THE INDUSTRY** TRANSPORTATION & LOGISTICS EDITION

EDUCATING THE NEXT GENERATION



Steve Youll
Honda Logistics
North America Inc.

When we talk about workforce and supply chain, we don't categorize them in a comprehensive manner. There is a truck driver shortage, there is analyst shortage, but we fail to look at it from beginning to end. I think we lose sight of the ways to get into this industry without going through something that is fixed, static, and parochial in its point-of-entry. I had the opportunity to work with Midwest Express, one of our subsidiaries, and got to participate in the Logistics ART. We were in a recession at the time and everyone was just happy to be doing something. It was great, but there was no sustainability beyond it because I don't think people understood what it (Logistics ART) was meant to do. Let's look beyond that. **What is the sustainability in five years?** More important, how can we take the folks that come through a program like Logistics ART and place them somewhere doing something that they really want to do? It's also about transferability of skills from one discipline into another. This business is all about solving problems, so be creative about how you can use your knowledge and experience to find solutions. If you have really good engineering skills, you might not build any buildings in logistics, but there are other ways to apply that discipline. As an industry, we don't communicate that very well.



Art van Bodegraven
Discovery Extension Services

There is a link missing in the conversations high schools are having with their students about their future as it relates to logistics and transportation, or manufacturing, or any industry that needs to keep their roles filled with qualified and talented employees. We are piecemealing the educational solutions. We have an idea here, and idea there and they are all good, but we don't have a good way of bundling them and rolling them out. We don't have a good way of approaching schools, effectively laying out for students the really exciting careers and quality of life opportunities that are there for the taking if they work hard, study hard and are focused on learning skills. But it's not all bad news. **There's a growing interest in industry needs** at the private for-profit colleges. Harrison College's Grove City campus, for example, is building a supply chain program, step by step, and it is headed in a good direction. They get the bigger picture that all of this execution is part of a much bigger thing. It is not about transportation, it is about transportation in the context of supply chain management. They are positioned to supply students who can intern at area companies, or they can act as a feeder for programs at Ohio State. There are signs, straws in the wind, but we have to capture them all and build something out of them.

2014 **STATE OF THE INDUSTRY** TRANSPORTATION & LOGISTICS EDITION
EDUCATING THE NEXT GENERATION



Greg Murphy
Ohio Department of
Transportation

Old perceptions are hard to wash off. There are the guidance counselors who won't talk about careers unless the subject includes Harvard or Yale. Those are not the forward-thinking ideas a 21st century economy needs. There are many similarities shared by the logistics industry with the construction industry when it comes to finding skilled employees. The average construction worker is 58 years old and there is a shortage of surveyors, engineers and workers in general. There is a program in Cincinnati called Track and Rise. It gets us into the high schools and lets us get the kids excited about construction. Many people think of construction as working with a shovel in your hand and sweating all day. That is not at all what we do. Our construction companies can't find welders or operators. If you are a skilled operator, you can make well more than \$100,000 a year, which is the highest of the high, but they certainly make \$80,000 to \$90,000 a year. We are working with schools, some construction companies and the state officials to let students who are not interested in the college track work on a construction site to see if they might be interested.

2014 **STATE OF THE INDUSTRY** TRANSPORTATION & LOGISTICS EDITION
EXPLORING ALTERNATIVE FUELS



Art DeCrane
FST Logistics

We just built a compressed natural gas station on site at one of our properties to help us control the use of fuel, which is the second largest expense item we have on the trucking side. We started to equip our trucks with units that can be compatible for compressed natural gas as well as diesel, and we are buying compressed natural gas units to run on a regional basis because they are limited as to the miles per gallon per tank. We feel it is one area we must concentrate on from a cost standpoint, and this is a good way to do that. It is also much cleaner-burning fuel so there are less maintenance costs to keep the trucks running. We are **focusing into the whole sustainability side of transportation** and trying to keep things as green as possible.



Beth Snoke
The Ohio State University

We just ordered our first compressed natural gas transit purchase. Unfortunately we don't have a fueling station yet, but the price of compressed natural gas is about half of what diesel costs, and the big-ticket items that you normally have to replace in engines don't need to be replaced as often.

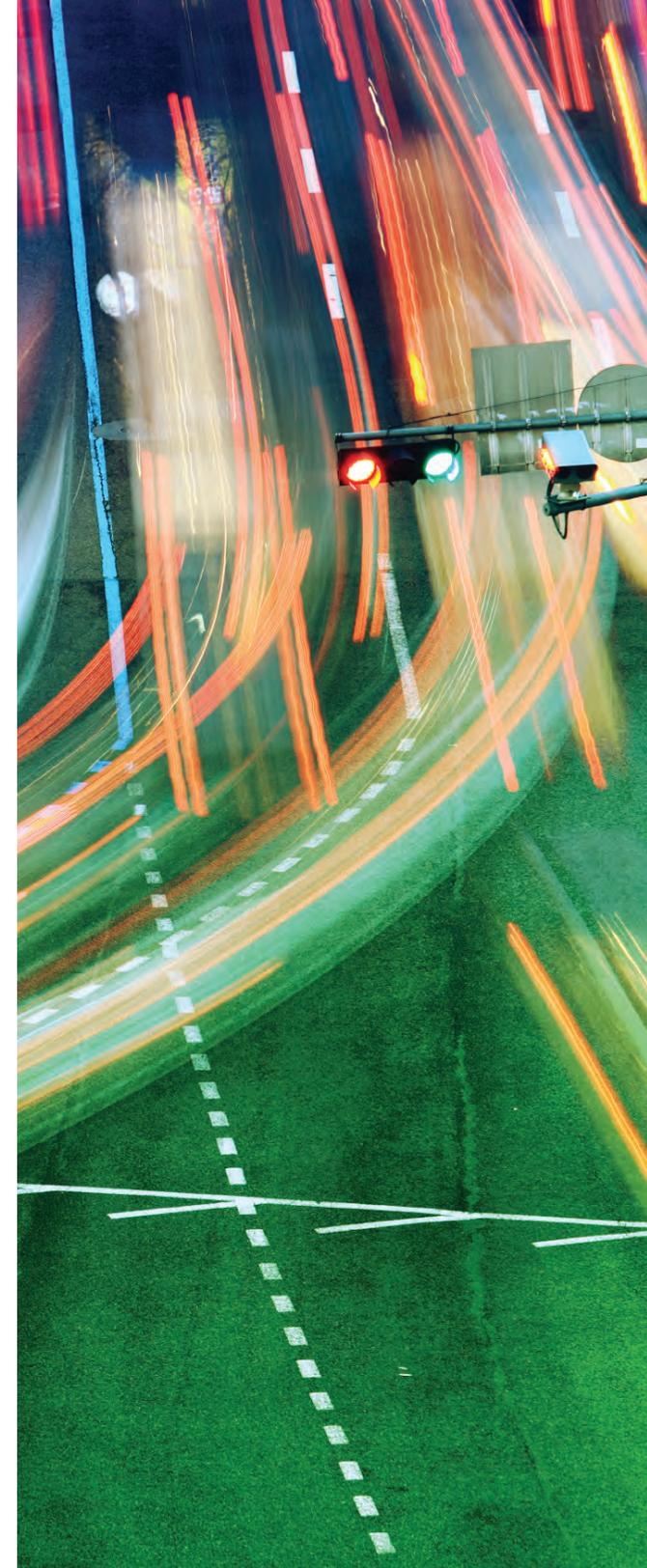
ABOUT **CLARK SCHAEFER HACKETT**

OUR FIRM Founded in 1938, Clark Schaefer Hackett is one of the 65 largest CPA and advisory firms in the U.S. We offer best-in-class technical expertise in audit and assurance, risk management, benefit plan consulting, forensic and litigation support, valuation and transaction services. We combine the insights and ideas of multiple disciplines to provide solutions in a wide range of industries, including manufacturing, construction and real estate, distribution, healthcare, financial services, as well as government entities, higher education institutions and not-for-profit organizations.

INDUSTRY SPECIALIZATION We align resources by industry to better serve the needs of our clientele. Specialization permits us to develop deep knowledge of the issues facing our clients and to anticipate needs based on our understanding of industry trends. We select a team that best fits the needs of the client from our strong bench of firmwide industry specialists.

RELATIONSHIPS MATTER We believe that doing the work and serving the client are not necessarily the same thing. One is about a talent for numbers, the other is about interacting with people. At CSH, relationships matter, and we believe that creating a supportive, helpful, working relationship is perhaps the most valuable talent we can offer.

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CSH AROUND THE TABLE **TRANSPORTATION & LOGISTICS**



DENNIS MCLAUGHLIN

Shareholder

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Dennis's 25 years of experience with clients in the Manufacturing Industry has made him the ideal leader of the firm's Manufacturing and Distribution (M&D) Group. He leads the firm's manufacturing audit engagements, assuring that every member of the team is well-versed in the complexities of the M&D industry and the latest economic trends that have impacted businesses. Dennis sets the agenda for M&D industry education throughout the firm. As an industry expert, Dennis has offered seminars to manufacturing leaders in the communities we serve.



PATTY AZALLION

Principal

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Patty Azallion has significant experience providing assurance services to privately held businesses in a variety of industries, with a strong focus in the manufacturing and distribution sector. She typically manages audit, review and compilation engagements for clients ranging from small, family owned businesses to those with sales revenue up to \$200 million. Patty's proficiency includes internal controls analysis and risk assessment, substantive testing, cash flow and revenue/expense analysis, as well as the preparation of financial statements.



ED WALSH

Shareholder

ewalsh@cshco.com

Ed Walsh is the Shareholder-in-Charge of the firm's Columbus office. Upon graduating from the University of Notre Dame, Ed joined an international accounting firm. He joined CSH in 1985 and has assisted in the significant growth of the Columbus office. He chairs the firm's Strategic Planning Committee.



MORGAN MAHAFFEY

Senior

memahaffey@cshco.com

Morgan Mahaffey has significant experience providing tax services to real estate and construction companies. His focus is on helping clients of all sizes implement tax strategies that mitigate compliance risk. Morgan's proficiency includes flow through entity taxation, tax credit partnerships, and tax compliance and consulting in connection with the sale, exchange, or other disposition of partnership interests.



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