

**U.S. House Committee on Transportation and Infrastructure
The Panel on 21st Century Freight Transportation**

How Logistics Facilitate an Efficient Freight Transportation System

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Representing



**International Warehouse Logistics Association
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Chairman Duncan, Ranking Member Nadler and members of the committee:

Thank you for inviting me to testify today. I represent the members of the International Warehouse Logistics Association and serve on the organization's executive committee. IWLA is the only trade association for warehouse-based third-party logistics providers (3PLs). These are companies like mine that offer warehouse-based supply chain management services to other businesses across North America.

Independent warehouses are a vital part of the economy. We manage the movement of our nation's freight and keep goods safe through the supply chain. We must expand and contract to match our customers' – and their end consumers' – trends and seasonal cycles. We employ a growing number of people – and provide them opportunities for advancement. We best serve our customers by identifying efficiencies that allow goods and materials to move with more velocity from creation to the end consumer while navigating the legislative and regulatory waters that affect goods movement. We do all of this while constantly looking for ways to achieve efficiencies within the overall supply and our success is evidenced by the fact that logistics costs as a percent of GDP have fallen almost half from 16.2% in 1981 to 8.5% in 2012.¹ Our unique position in the supply chain allows us to understand just how goods move across the country – and exactly where the system needs to focus to ensure smooth commerce in the future.

Our industry employs approximately 700,000 individuals and operates more than 1 billion square feet of warehouse space. As a testament to the importance and strength of our industry, the U.S. Bureau of Labor Statistics shows that warehouse-based 3PLs are among the few

¹ http://www.joc.com/economy-watch/us-economy-news/logistics-costs-stay-85-percent-us-gdp_20130619.html

employers that have experienced positive job growth during the latest recession; BLS data show that the employment has steadily increased with average wages of \$18 per hour².

Career ladders in public warehouses take many paths: from entry-level positions to supervisors and managers; from information technology professionals to truck drivers; from regulatory experts to accounting and financial professionals and executives. In fact, the Commonwealth of Pennsylvania and Los Angeles and Alameda Counties in California recognized the warehouse-based 3PL industry's strong promote-from-within opportunities.

Today's commercial freight is multi-modal and the warehouse-based 3PL is the point at which modal interchange happens. Freight entering or leaving our ports is trans-loaded (meaning, the goods move from one mode of transportation to another) at warehouse-based 3PLs – whether from truck to ocean container; from railcar to truck (or vice versa). This is one reason IWLA members' facilities are located near every major airport, seaport, harbor, rail yard and interstate interchange, and why adequate access to these locations is imperative.

As I mentioned, velocity, security and accuracy within the supply chain are mission-critical outputs. This is the reason warehouse-based 3PLs provide a growing number of value-added services. These warehouses, once only big-box buildings where goods were stored, now may label, package, sort, blend and test these materials to save on customers' transportation costs and to speed the process. These same warehouses may also support made-to-order operations, handle returns processing and refurbish returns.

Warehouse-based 3PLs are a key player in another growing segment of the economy: Internet commerce. For example, when you place an order online for Jockey apparel, no matter which website you use, that order will be picked, packed and shipped from a 3PL warehouse. In this case, it is shipped from an Integrated Distribution Services, Inc. facility in Plainfield, Ind. From this facility, we ship to consumers all over the world the same day that we receive a customer order.

Ecommerce fulfillment is a special subset of 3PL warehousing, offering unique challenges. Because of the retail nature of most ecommerce companies, they are subject to high seasonality requiring the warehouse-based 3PL to manage peak-season order volumes that are often two- to three-times greater than off-peak volumes. The increasing amount of ecommerce sales means more shipments being delivered directly to the consumer. This fact also demonstrates that commercial freight does not just move on interstate highways but extends all the way to the residential doorstep.

This new business model for warehouse-based 3PLs exposes these organizations to laws and regulations that previously applied only to manufacturers. One distinction between the warehouse and manufacturer is important to keep in mind: Warehouse-based 3PL operators do

²<http://www.bls.gov/iag/tgs/iag493.htm>

not own any of the products that move through their facilities. Ownership of the goods remains with the warehouse's customer and the relationship is that of a bailor and bailee governed by Article 7 of the Uniform Commercial Code.

It seems that this relationship is often not understood nor considered during the drafting of federal rules and regulations. While the warehouse operator is prepared to live by rules and regulations governing the handling and storage of various products, we can only act upon the direction and information supplied by our customer, the bailor. As bailee, we should not be held to the same level of liability that applies to the owner of the goods.

From its unique position in the supply chain, the warehouse-based 3PL can see and is directly affected by bottle necks and choke points within our commercial freight network. As companies strive to develop lean supply chains, it has resulted in the need for goods to move rapidly through the supply chain while maintaining accuracy and safety. This emphasis on velocity is evidenced by increased inventory turns which means, many activities in the warehouse must be tightly choreographed. Goods must be unloaded when scheduled, move through the value-add process and be prepared for shipment - sometimes within a matter of hours. Delays at any point cause a ripple effect that results in increased costs and late shipments. When containers in Long Beach are delayed leaving the port, a truck is delayed in traffic through Chicago or takes three hours to cross the Ohio River via the Brent Spencer Bridge Corridor, an air cargo flight is delayed due to air traffic congestion or a train is annulled, this inefficiency manifests itself at the warehouse where increased costs are incurred to keep the supply chain moving in a coordinated fashion.

A strong logistics industry enables a healthy and growing economy. But a strong logistics industry is only possible with freight policies that support the needs of the 21st-century supply chain.

With this in mind, the members of the International Warehouse Logistics Association ask the committee to consider the following:

1. Develop strong national freight policies that build on the efforts of MAP- 21 and promote the coordinated multi-modal movement of goods.
2. Establish a Freight Trust Fund for the exclusive purpose of financing necessary improvements to high-priority freight bottlenecks in the highway system.
3. Establish a Freight Infrastructure Commission whose purpose is to identify and recommend to the Secretary of Transportation those high-priority freight bottleneck projects that should be financed from the Freight Trust Fund. Funding for the Freight Trust Fund shall come from a highway diesel excise tax differential of (amount to be determined) and indexed for inflation.

4. Develop new approaches to infrastructure financing for all commercial transit modes. These can come via traditional revenue sources and through new sources such as user fees, mileage-based taxes and the greater use of private investment.
5. Implement policies to ensure that revenue designated for commercial freight projects cannot be diverted in the same way that Highway Trust Funds are today.
6. Promote greater cooperation among all classes of railroads and their shippers to increase the efficiency of the entire rail network.
7. Study innovative design solutions for efficient freight movement. Analyze the impact of dedicated truck lanes and review regulatory policies such as truck size and weight with an unbiased cost-benefit analysis.
8. Guarantee that fees collected on imports at the ports through the U.S. Harbor Maintenance Trust Fund are used for their intended purpose: dredging and maintaining the nation's port and waterways. Also, with expansion of the Panama Canal, many ports will need dredging to accommodate the larger ships transiting through the Canal.
9. MAP-21 reformed the project approval and delivery process for highway projects. We support efforts included in MAP-21 to streamline the regulatory review process so that projects can be realized on-time and within budget. We encourage the Committee to monitor the implementation of the MAP-21 streamline directive and adopt additional measures if and when necessary.

On behalf of the International Warehouse Logistics Association, I thank you for your time. Our industry stands ready to work in partnership with the committee on ways to enhance commercial freight movement that will result in economic growth for our country.

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