Industry Cluster Briefings Series

TRANSPORTATION, LOGISTICS AND DISTRIBUTION CLUSTER

INSIDE

Overview

The Transportation, Logistics and Distribution (TLD) Industry Cluster consists of industries within the wholesale trade, transportation, and warehousing sectors. These industries can be further grouped by those related to transportation and those related to distribution.[1]

This cluster consists of the following types of businesses:

Transportation

- Air Transportation
- Rail Transportation
- Water Transportation
- Truck Transportation
- Transit and Ground Passenger Transportation
- Pipeline Transportation
- Scenic & Sightseeing Transportation
- Support Activities for Transportation
- Couriers & Messengers

Distribution

- Durable Goods Merchant Wholesalers
- Nondurable Goods Merchant Wholesalers
- Agents, Brokers & Wholesale Electronic Markets
- Warehousing & Storage

[1] http://nj.gov/state/bac/pdf/2013-win-TLD.pdf

Business Continuity Overview for the Transportation, Logistics and Distribution Cluster

Business continuity is the creation of a plan to resume critical business processes after a disruption. Having a plan in place before a disruption, and practicing the plan, will enable a business to resume critical processes much more swiftly, efficiently and cost-effectively than an improvised response. According to FEMA, 75 percent of businesses that do not have BCPs fail within three years of a natural disaster[2]. Encouraging suppliers to demonstrate their continuity capabilities can also be a competitive requirement for future business – to provide more confidence in the suppliers' capacity to deliver on their orders. Integrating continuity planning up and down the supply chain can help identify efficiencies in "peace time" and build surety in production during disruption.

Because of the level of interdependence within New Jersey's transportation infrastructure, a failure of any one element can have a serious impact on people and business throughout the state. This interdependence is a result of the true multimodal transportation infrastructure of New Jersey, which includes water, rail, highway, and air transportation centered in the Newark region. Coordination of business continuity between large transportation assets and the businesses that they serve is critical, not only for New Jersey, but for surrounding states served by this cluster.

Common risks and potential actions to reduce those risks for Transportation, Logistics and Distribution companies are identified below:

Risk	Possible protective action
Denial of access to facilities	• Continuously update status on social media sites, website, and the press let customers know the current status and plans to resume operations • Find temporary space, if needed • Establish alternate logistics facilities or agreements to accommodate both disruptions and surges in business activity
Loss of critical vendors or supply chain disruption	• Establish hard copy and electronic contact lists of primary and alternate suppliers (and competitors)

[2] http://www.usfa.fema.gov/pdf/efop/efo47103.pdf

Common risks and potential protective actions continued:

Risk	Possible protective action
Denial of access to systems & information (computer systems, credit card machines)	• Develop manual accounting systems that can be activated to allow continuous shipping and warehousing of goods • Create remote or cloud-based systems backup for storage and recovery of data
Physical Damage	• Develop contact lists of construction contractors, roofers, plumbers, landlords, etc. who can respond to physical damage
Staffing deficiencies (access challenges, surge requirements, staff unavailable)	• Invest the time to ensure staff are appropriately cross-trained and experienced in carrying out any key aspect of the business (e.g. drivers are certified for multiple types of vehicles/equipment).
Vandalism and/or theft	• Develop plans with local law enforcement and emergency management to maintain security during a prolonged absence. • Invest in remotely accessed security and surveillance equipment.
Loss of customer confidence	• Keep status of business updated on social media and the business' website; inform local media that your business survived the event. Reach out to current customers via email blasts and courtesy calls (if possible).
Disruption of customers operations	• Work with customers and suppliers to understand their continuity plans to appropriately set expectations for when and how those key links will be restored.

For the TLD Industry Cluster, two specific aspects of the overall process of creating a Business Continuity Plan (BCP) should be examined. They are:

1. Viewing Suppliers as Strategic Partners

The selection of suppliers to support the supply chain management model is critical. If possible, TLD companies should ensure that their suppliers have either a BCP or a business continuity management program in place. The depth of business continuity planning required of each supplier will depend on how critical that supplier is to the operations of the TLD company. It is important to remember that should any link in supply chain break it will likely be disruptive to the entire operation of TLD client companies. TLD companies should find opportunities to collaborate with, suppliers, customer, and in some situations, even competitors to incorporate business continuity into the entire supply chain. These companies can benefit greatly from working together, not only in disaster preparedness, but in being better able to respond to almost any market change. Whether it's new technology, economic cycles, or changes to trade agreements, working together distributes risk across multiple parties and leverages a wider set of assets. One opportunity could be the adoption of business continuity requirements in contracts with both suppliers and customers.

A good example is found at the Port of Newark after Sandy, where firms had trucks that were completely destroyed because of storm surge and warehouse space that had 8-14 feet of water inundation. One collaborative strategy could be to establish co-operative continuity projects where operators jointly lease facilities that have access to intermodal facilities, and pre-agreed commitments with large leasing companies for a certain number of trucks to be shipped in for use until fleets could be restored. Several companies could come together to negotiate these contingency agreements at a most likely much lower cost than individually. Another possible collaborative venture could be to jointly lease facilities that can serve as overflow during good times and places to relocate equipment when they know a storm is coming. For more ideas on business networking and collaboration, see http://rtsinc.org/publications/documents/showmethemoney.pdf.

A link to this useful article on TLD supply chain preparedness that points out in particular that supply chain preparedness approaches could help increase resilience in the supply chain. TLD businesses should develop alternative secure storage options and work with their supply chain cohorts in the decision-making processes.[3]

[3] http://www.nyu.edu/intercep/lapietra/Hale&Moberg_ImprovingSupplyChainDisasterPreparedness.pdf

2. Coordinating with Government and Other Transportation Industry Stakeholders[4]

Coordination efforts among firms and all levels of government involved in the transportation network recovery process are vital to ensuring that restoration of economic activity occurs safely and quickly. Recommendations include:

- Join a state or local transportation management organizations, such as the New Jersey TLD talent network (http://www.njtld.org/) or the Northern New Jersey Partners TLD initiative (http://www.northjerseypartners.org/Clusters-Transportation.htm) where there are shared best practices and lessons learned with other companies and organizations in transportation and logistics field.
- Work with state and local officials and other firms to establish mutual aid agreements. A mutual aid agreement is a written agreement between agencies, organizations, or jurisdictions to lend assistance across jurisdictional boundaries. Participants in these agreements pledge to assist by furnishing personnel, equipment, and expertise in a specified manner at a specified time.[5]
- Consider holding regular meetings or tabletop exercises to discuss how all of the companies in a specific geographic area, such as a port complex, would communicate and coordinate after a disruption. Make sure key partners and vendors have *their* own business continuity plans to meet your firm's needs after a disruption.

Meet with government officials in the community who are required to work with companies in the TLD cluster after a disruption. This should include Regional Emergency Transportation Coordinating Officials (RETCO) and Regional Emergency Transportation Representative (RETREP).

RETCO and RETREP are regional representatives for the U.S. The Department of Transportation and can be valuable resources in connecting companies regionally and nationally with subject matter experts before and during the recovery process.

Enhance information sharing with local, state, and federal governments by engaging in multi-agency planning sessions to explore interdependencies. On a Federal level, reach out to the Transportation Sector Coordinating Council of the U.S. Department of Homeland Security, Office of Infrastructure Protection Both have resources that can help TLD companies more effectively restore transportation infrastructure.

[4] http://www.dot.gov/disaster-recovery/preparation/transportation-industry-stakeholders
[5] http://www.fema.gov/resource-management

Hazard Mitigation for the Transportation, Logistics and Distribution Industry Cluster

Hazard Mitigation is the assessment of the hazards that are most likely to strike a particular business type or location, and the creation of a plan to lessen the effect of those hazards before they strike.[6] The most common example of hazard mitigation is a fire alarm: the vast majority of all construction is vulnerable to fire, and advance warning of a fire hugely diminishes the risk of loss of life or property. Each business should plan for the hazards they are most likely to face for example, a business in the Midwest is not likely to experience storm surge from a hurricane, so hurricane mitigation should be a lesser priority. Hazard mitigation is distinct from business continuity planning; hazard mitigation activities are undertaken before a disruption to physically reduce the effect or damage on the business. Hazard mitigation tools and resources are available from the following link to FEMA.

The TLD sector has assets that are either mobile (e.g. trucks, trains, ships) or capital intensive/heavy assets (e.g. warehousing space, equipment, large inventories, etc). This makes it important to integrate smart planning for how to relocate mobile assets while engineering "anchored" space to be less susceptible to physical hazards. More detailed information on these examples, including how-to instructions and resources, can be found on FEMA's Hazard Mitigation Planning Resources website: http://www.fema.gov/hazard-mitigation-planning-resources

Examples of Potential Hazards	Examples of Mitigation Actions
Flooding	• Build with flood damage resistant materials: http://www.fema.gov/media-library-data/20130726-1503-20490-6330/fema15.pdf • Raise electrical system components: http://www.ready.gov/floods • Anchor fuel tanks • Install sewer backflow valves • Elevate buildings in low lying areas • Consider utilizing the National Flood Insurance Program (NFIP): http://www.fema.gov/national-flood-insurance-program
Loss of Power	• Invest in and regularly test an emergency generator: http://www.emd.wa.gov/preparedness/GeneratorSafety.shtml • Have battery-operated light sources on hand, keep stock of batteries: http://www.ready.gov/blackouts • Invest in an Uninterruptible Power Supply (UPS): http://www.energystar.gov/index.cfm?c=new_specs.uninterruptible_power_supplies, http://en.wikipedia.org/wiki/Uninterruptible_power_supply • Plug computer and electronic equipment into surge protectors: http://www.disastersafety.org/blog/surge-protector-and-power-strip-know-the-important-difference/ • Unplug any sensitive electronic equipment in advance of severe storms

[2]http://www.fema.gov/what-mitigation/federal-insurance-mitigation-administration

Hazard Mitigation continued:

Examples of Potential Hazards	Examples of Mitigation Actions
Strong Winds	• Utilize Exterior Insulation and Finish System (EIFS): http://www.fema.gov/media-library-data/20130726-1627-20490-4852/how2027_eifs_walls_4_11.pdf • Elevate items in house/business that could flood; bring in items from outdoors that could become projectiles: http://www.ready.gov/severe-weather • Protect windows and doors with covers: http://www.ohsep.louisiana.gov/factsheets/avoidingwinddamage.pdf • Reinforce or replace garage/loading doors • Secure metal siding and metal roofs • Secure built-up and single-ply roofs • Secure composition shingle roofs • Brace gable end roof framing
Fire	• Eliminate electrical outlet overloads: http://www.usfa.fema.gov/citizens/home_fire_prev/ • Test smoke detectors regularly: http://www.ready.gov/fires • Replace long-term use of extension cords with permanent wiring • Replace broken or frayed electrical cords • All employees now how and where to shut off electrical power • Separate incompatible materials (flammables and corrosives): http://www.lbl.gov/ehs/chsp/html/storage.shtml • Keep flammables in approved safety containers: https://www.osha.gov/dte/library/flammable_liquids/flammable_liquids.html • Use flammable liquids only in well-ventilated areas

Insurance Considerations Specific to the Transportation, Logistics and Distribution Industry Cluster

Ensuring that a TLD company is neither over insured nor underinsured is critical. Coverage must be designed in consultation with key personnel and legal counsel.

Businesses can purchase bundled coverage, like the Commercial Package Policy (CPP). The CPP combines Commercial Liability and Commercial Property and some additional policies designed for specific industries. The Commercial Package Policy provides both property and liability coverage but has more flexibility to tailor the insurance coverage to the specific needs of a business operating within the TLD cluster.

- There are issues specific to the TLD Cluster that should be covered with the firm's insurance provider:
- Provisions for customer liability in the event of delay of delivery, along with employee overtime and additional equipment expenses due to a disruption should be addressed.
- Coverage or financial risk instruments should be put into place for liability to customers for delays and disruption to supply chains due to a disruption
- Costs for re-routing or finding alternative transportation for goods due to a disruption should be covered
- Liability for employees operating vehicles, watercraft, and airplanes, particularly under the additional stress caused by a disruption, must be addressed.
- Risk arbitrage for spikes and fuel and maintenance costs due to a disruption should be addressed[7]
- Evaluate the sufficiency of insurance coverage for physical and financial losses. Consider as well the limitations of the liability insurance policies in situations where people may need to be evacuated or temporarily displaced from their homes due to a transportation disruption.[8]
- It should also be noted that business interruption insurance will generally not cover losses relating to perils that are not covered by the business under a general policy. For example, if wind is not a covered peril, a business interruption caused by wind will generally not be covered. Check with the insurance provider on how to obtain coverage for specific perils.

The National Flood Insurance Program (NFIP)[9] was created by Congress in response to increasing costs of floods, primarily due to disasters. At the time NFIP was enacted, flood insurance was not readily available or affordable through the private insurance market. Congress agreed to subsidize the cost of the insurance so premiums would be affordable. NFIP was recently changed, and the following links provide critical information on the program and those changes.

- Flood Insurance Issues in Recovery
- National Flood Insurance Program and Reforms
- National Flood Insurance Program
- Building Higher

[7] http://www.kisfutures.com/GuideEnergyHedging_NYMEX.pdf
[8] Ibid
[9] http://www.fema.gov/national-flood-insurance-program

Common Questions to Ask an Insurance Provider

Firms should have an annual insurance policy review with their providers. Included below are some common questions to ask during those reviews:

1. Which perils are or are not covered under the current policy?
2. What insurance regulation changes are coming in the next year?
3. What increases in coverage should be considered?
4. What is the provider's biggest concern with current insurance coverage?
5. Are there any additional options?
6. Are there any incentives or benefits available to businesses that have undertaken mitigation or continuity activities?

Questions Specific to the Transportation, Logistics and Distribution Cluster to Ask an Insurance Provider

The following are a sample of industry-specific questions that firms in the TLD industry should review with their insurance carriers:

1. Does my plan cover customer expenses for delays in deliveries?
2. Does my plan cover employee medical liability for equipment operation?
3. What are the limitations to my business interruption insurance?
4. Are there protections to cover increased costs due to wide-spread transportation disruptions?