



LOGISTICS STRATEGIES

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Greetings

Welcome to the January edition of Logistics Strategies. With this issue we are celebrating the start of our second year publishing our newsletter.

Each month, LOGISTICS STRATEGIES focuses on logistics and transportation issues that matter to busy professionals; issues that affect cost, time, resources, and business strategy. Our clients, partners, and peers in the field tell us that they just don't have enough time to read numerous trade publications or surf the web in order to target the information they need to know, not tomorrow, but NOW.

And that's what LOGISTICS STRATEGIES is all about: efficiently delivering timely and topical logistics and transportation news to decision-makers; news that saves money, time, and resources.

We hope you enjoy this issue.

The Carrier Selection Process

We hear a lot today about the value of shipper/carrier partnerships. While many companies put a great deal of effort into the carrier selection process to assure working partnerships, others use the old dartboard approach to selecting carriers. And some shippers choose carriers solely on the basis of cost without fully assessing the carrier's ability to serve the shipper's needs.

Shippers today talk about these shipper/carrier partnerships as being beneficial to both the shipper and the carrier, however, in their zeal to save their company money, they are really looking at taking an upper hand in the partnership process to squeeze the carrier beyond what a normal partnership arrangement should be.

On the other side of the coin, the motor carrier industry very often markets their services primarily through market share dominance rather than profitability of their business. A short history lesson dating back prior to 1980 when carriers were regulated by the Federal government, will give us a foundation as to how this philosophy began.

Under a regulated environment, all carriers were created equal. There was no need for a carrier to really know its costs because as part of the rate bureau process, all carriers operating within a particular region would benefit from the combined statistics of their regional competitors. They would propose general rate increases, often several times during the year. Carriers that operated profitably added to their coffers at a greater percentage than their borderline profit counterparts.

When deregulation began in 1980, the "protectionism" floor was removed and each carrier now was required to know what their costs were in order to offer competitive rates and stay in business. Today, there still are some carriers that have not learned how to price their services profitably.

We believe that the carrier selection process should include a guarantee that the carrier is able to haul the shipper's products at the rates agreed to for the stated contract period. This can only be done if the shippers' selection process ensures that the freight carriers can meet the shippers' needs prior to signing on the dotted line. The qualification and selection process must be part of a carrier quality program. This quality program will ensure that the carrier can meet the shipper's needs for both price and service for the long term. There must be buy-in from the freight carrier as well as buy-in from the shipper that this process will work.

Many shippers solicit their business under a competitive proposal process. This process allows certain carriers to bid on a shipper's business with the assumption that all carriers are created equal, and then the final selection process is based on lowest cost. The fallacy we see with this process is part one, and that is creating all carriers equal. It is difficult to put all carriers on an equal playing field.

Under the competitive proposal process an incumbent carrier does not get an added benefit for handling business in the past. Once the contract is completed, he must again compete with new players that don't know a lot of the ins and outs about this shipper's business.

A partnership as we see it is where both partners in the agreement are created equal. While focusing on these partnerships, the shipper should ask the carrier "how can I be a better customer to you?" The carrier, on the other hand, should ask the shipper, "how can I better serve your needs?" The fundamental reason for selecting freight carriers has not changed since day one. The answer is very simple: #1 to provide excellent service and #2 to provide that service at the least possible cost to the shipper.

It is imperative that any business relationship between a shipper and a freight carrier must be done on a win-win basis. Never "we win-you lose" for either party. Those shippers that believe they have an upper hand in any transportation arrangement may be the losers in the long run if the carrier cannot continue to handle the freight at the service levels and rates originally negotiated. Both parties must be prepared for a marriage where there is give and take and both parties contribute 100% to see that the relationship truly works.

We believe that shippers and carriers should be looking for long term business relationships. Carriers need to invest in new equipment and technology, or they will not be around in the future. They want to know that their future is bright and are willing to make the commitment for the long term. They want to have a shipper base that has the same philosophy. It is important for both shippers and carriers to treat each other as true partners. As part of this partnership arrangement both shippers and carriers must be willing to do business on an open book basis. In other words, what is the carrier's cost to service? How much profit will be built into this business? How much can the shipper afford to pay for the services provided? All these questions need to be answered prior to any contract agreement. Both sides must be willing to share statistical data with each other which is detailed and accurate.

In the carrier selection process both shipper and carrier must drive down costs together. Both sides should be willing to address cost drivers which will include such things as paying the freight carrier on time, identifying areas where the shipper can help reduce the freight carrier's expense, and the carrier's willingness to work with the shipper to reduce the shipper's cost of making the freight available to the freight carrier.

Providing information between parties in advance of any changes is critical to a win-win situation. And, the final caveat is communications. Both parties must work together to handle problems that occur. It will do neither party good to point a finger at the other party for a problem that has occurred. Get the problem resolved, then move forward. Monitor the performance of each party on a continuous basis and make the relationship work.

In closing, we wish to point out that there are thousands of successful contractual negotiations between shippers and carriers. In most of these cases, the reason for the success is based on a commitment of both parties to make the relationship work. The aforementioned guidelines will assist shippers and carriers in achieving that goal.

Simplifying Contract Rules

While many shippers have negotiated contracts based on distinct needs and services to be provided to them by freight carriers, they often leave themselves wide open to potential legal problems when the motor carrier rules are not clearly spelled out in the contract. Very often, shippers will merely refer to a motor carrier's common carrier tariff for all rules and regulations. This can create tremendous problems because conflicts can arise between the intent of the contract and the specific rule published in the motor carrier's tariff.

To avoid this issue, shippers should discern which rules will apply to their transportation agreement between their company and the carrier. When these rules are clearly established, they should be written into the

contract. This can be done in one of two ways:

1. Attach as an appendix to the contract, a copy of the rules published in the motor carrier's tariff without making reference to the tariff itself.
2. Rewrite the rules in simplified language, so that both parties understand the requirements of the services to be provided by the freight carrier and to be paid for by the shipper. Those involved in working with motor carrier tariffs understand the complexities of the rules and should have the ability to remove any extraneous material which does not really apply.

Many carriers we have spoken to would prefer that shippers simply refer to their rules tariff as part of any contractual agreement as a motor carrier. Shippers should not agree to pay for services which may not be required as part of the contract agreement. In addition, we believe that the insertion of only specific rules, clearly designed to meet the distinct needs of the shipper, would eliminate any controversy.

To put this issue into perspective, we recently reviewed a motor carrier's rules tariff for specific items published therein. According to the index, there are eighty-one different rules describing a variety of services the carrier provides and associated charges.

We then compared these rules against the services that one of our clients actually required as part of their motor carrier agreement with the same carrier. Out of the eighty-one rules provided for in the carrier's tariff, the shipper would avail themselves of only eight of the services. Ninety percent of the motor carrier's rules did not apply to the contract agreement. Therefore, why would any shipper want to agree to be subject to those tariff provisions?

To take this one step further, we took the individual rules and rewrote them in common, everyday language so that both parties would understand them more clearly. The following is one example of these newly revised, simplistic rules.

Notification Prior to Delivery

Carrier's Version: "When requested on the bill of lading, the charge will be billed to the payor of the freight charges or against the party requesting this service if not on the bill of lading. For initial notification to private residences, apartments, churches, schools, camps and other such locations, see item --- . The per shipment charge does not apply on export traffic at Baton Rouge, LA, Gulfport, MS, Mobile, AL, New Orleans, LA, Pascagoula, MS, or Pensacola, FL. Notification prior to delivery charge all shipments \$22.35 per shipment, subject to note 1. Note 1: When requested by the shipper on the bill of lading at the time of shipment, charge will apply per shipment. When requested by the consignee, charge will apply per notification."

Suggested Shipper's Version: "When shipper requires the freight carrier to

notify a consignee prior to delivery of any shipment covered under this contract, a charge of \$5.00 per notification will be assessed against the shipper. This charge will apply to either commercial deliveries, or deliveries to private residences. Shipper agrees to specifically make this request on the bill of lading contract."

What the shipper has done is eliminate any extraneous details provided in the carrier's version of the published rule. The shipper and the motor carrier in the example given above had agreed that a \$5.00 per shipment charge would apply when the shipper notes on his bill of lading that a notification prior to delivery is required. This charge would apply whether the shipment was made to a private residence, or to a business location. No provision was made for churches, schools, camps, etc., as no deliveries are made to these types of facilities.

The key element here is for shippers and motor carriers to first agree on the rules that will apply to the transportation services provided, and then to try to work out basic language which would protect both parties and clearly define the services to be provided and the charges associated with them. While there is no "standard" for basic rules of motor carrier services, we believe that shippers and motor carriers can work together towards simplifying these rules.

The example given above is just one example of contract rules simplification we strongly recommend. Shippers and motor carriers should go through the same process with each rule that applies to the contract agreement. The basic principle is this:

1. If the rule does not apply, do not include it in your contract.
2. If the rule does apply, simplify the wording, so that both parties understand the service to be provided and the charges to be assessed.
3. Eliminate any extraneous wording and/or reference to other tariff items which have no application.
4. Before signing the contract, have it reviewed by transportation counsel to assure that no conflicts will arise in the future

Shippers and carriers should keep in mind that motor contract agreements are bilateral agreements. This means that both shipper and carrier have a meeting of the minds as to the provisions of the contract carrier agreement, and that neither party can change the contract without the express written consent of the other. In this regard, it certainly makes sense to negotiate the rules of service and to simplify those rules, so that both parties clearly understand their meaning.

By the Numbers

Recently, Morgan Stanley, magazine publication, Parcel, and their sister

publication, B2C, surveyed their readers on the state of parcel operations. Over 250 respondents who collectively ship and receive over 120 million parcels a year provided the input for this survey. Here are some key points from the survey:

1. **The Number One Management Challenge:** The respondents overwhelmingly stated that managing costs was their number one priority. They stated that as transportation costs continue to increase, they had to look at every opportunity to reduce operational costs. Their second biggest challenge: making sure deliveries arrived on time.

2. **Hiring Experts Pays Off:** Respondents agreed that hiring consultants to negotiate parcel carriers' rates and contracts proved to provide huge paybacks. When consultants were used to negotiate ground discounts, they achieved average incentives of 34% for FedEx Ground and 35% for UPS. Those companies that handled their own negotiations received discounts of 21% and 22% respectively. Average ground discounts for those companies responding to the survey were 23% and 24% respectively.

3. **Cutting Claims Costs:** For those companies that used consultants to audit parcel carrier invoices, 60% of claims for service failures were paid by the carriers. In contrast, those companies that did not use consultants received refunds on 46% of claims filed. It is clear that outsourcing parcel audit and negotiations to qualified consultants will yield huge savings.

The results overall clearly show that logistics professionals had concentrated on parcel transportation cost issues in 2006, in addition to service issues, to assure the best deal for their companies.