SESSION III MEETING SHIPPERS' NEEDS BY CREATING A SEAMLESS SYSTEM — STRATEGIC MANAGEMENT PROCESS

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While there are many separate agents involved in domestic and international transportation of freight shippers, the systems customers are now less concerned about how freight gets there and more concerned with reliability, speed, tracking, and cost. Creating a seamless transportation system that meets these needs is the goal of both the public and the private sectors; however, the way in which that goal is achieved may pose very different questions and concerns for each of the public and private sectors so we welcome this opportunity to hear the shippers' perspective.

WHAT THE SHIPPER EXPECTS

Jim Lamb, Director of Transportation Planning
Eastman Kodak
Rochester, New York

The way Kodak selects and monitors suppliers is now under development and may be different for other organizations.

Kodak is an $18 billion corporation worldwide with 134,000 employees. We have five major operating divisions which are viewed as autonomous businesses, and they in turn are subdivided into some 25 to 30 business units. We have about 30 manufacturing plants throughout the world and some 60 distribution centers. The interchange among all of those entities represents about 20,000 FEUs per annum and the cost is about $75 million. The process I am going to talk about does not apply to 100 percent of all of that, only some portion and is in the development stage and not totally implemented. Our total freight bill is between half and three-quarters of a billion dollars.

In the carrier selection process, what we are trying to do is centralize the buy. We are going in the direction of a supplier or mode manager. I try to bring together into the process of putting this out to the carriers as many different business units, operating divisions, operating units, manufacturing plants, and distribution centers as I can. Strategically, we are working towards reducing the number of suppliers with whom we are doing business. There are in-house opinions that say single sourcing. If we could deal with one steamship line to take care of all our needs, I would push for that. There are those that do not agree with me. We do not relish sitting down with ocean carriers every year and negotiating rates lane by lane. We want to put together a global deal to cover all of our trade lanes in one package but do it with enough flexibility so that a few years out both parties are still satisfied with price. We have been struggling with this but this is the way we are going.

A carrier selected by Eastman Kodak (EKC) would have the following characteristics as basic criteria:

- Provides frequent, competitive, consistent, reliable sailing schedules and in-transit time on lanes of interest to EKC.
- Offers services on the majority of trade lanes where EKC has traffic. This can be by third-party arrangements when necessary.
- Manages from a worldwide perspective as opposed to a purely trade lane focus, e.g., has a total-account approach to EKC traffic. This must include the capability to address pricing on a global, total-account basis.
- Provides a leadership role in pricing proposals on behalf of EKC.
- Provides equipment of appropriate size, type, and condition to handle specific EKC needs on a given lane.
- Provides capability of effective EDI programs and processes using EDIFACT standards. This includes booking shipment status and tracking, billing, payment, and performance measurement.
- Develops, maintains, and nurtures a consistent long-term relationship with EKC. This must include a focus on mutual cost reduction programs as opposed to price increases.
- Manages effectively for positive long-term financial results, indicating future presence in the trade.
- Shares information on market conditions, industry direction and developments, long-term strategies, and other matters relevant to EKC's transport management process. Openly shares detailed cost information by corridor in order to develop cost improvement strategies.
- Meets or exceeds all applicable standards for local, national, and international safety and regulatory rules and requirements.

First, we are looking for service, reliability, frequency, and consistency. This must be a given. Then we get into pricing discussion.

Because of competition, our gross margins have been eroded tremendously. To improve our return on invested capital we must get our manufacturing costs down and get better returns out of our assets. One of our largest assets is inventory. Unless we have fast reliable service we can't make a dent in that inventory.

Secondly, we look for suppliers that can cover a large number if not all of our trade lanes. We are involved in some 30 to 40 major trade lanes throughout the world. I am not just talking about U.S. imports and exports. I mean Far East-Europe, Europe-Far East, intra-Asia, Australia to Japan, Brazil to Singapore, Toronto to Europe, etc. We are looking for people who can put that under an umbrella for us and can put together either the organization or the process to deal with this on a global basis. We do not want to be talking to 12 different divisional vice presidents. We have not run across one line at this point who is adept at this.

Price is always a factor. We have to maintain our competitive edge; in some marketplaces we are down to pretty slim margins especially where you are in the backyard of some of these European and Asian manufacturers. Transportation costs can make a difference between being in a marketplace or not, even for a high-priced product like ours.

The EKC carrier assurance program is based on the following weighted service characteristics:

• Operational Performance		70%
Delivery schedule	30 pts	
Regulatory compliance	10 pts	
Claims ratio to shipments	5 pts	
Claims ratio to revenue	5 pts	
Condition of equipment	10 pts	
Equipment availability	10 pts	
• Administrative Performance		10%
Claims settled in less than 60 days	5 pts	
Billing accuracy	5 pts	
• Customer Service Surveys		20%
External customer survey	10 pts	
Internal customer survey	10 pts	
• Total		100%

We are looking for companies that can provide the type of equipment we need, and in good condition, when we need it.

The EDI issue may look like it is low priority but it is not. This is really a fast payoff. We need to get rid of papers and our intent is by the end of 1992 on any given trade lane there is a carrier who can hook EDI up with us. We want to transmit the booking, get booking confirmation back electronically, transmit the bill of lading, any other information, and send money electronically without exchanging invoices. This is a must. We have got to get these administrative costs under control.

We are looking for strategic alliances. I can't call them partnerships because the legal department told me not to. We want to develop this long-term alliance because we want to get costs out of the system. We will not be able to absorb price increases from the carriers. The only solution is to work together to get costs out of the system. We are looking for stable companies that will be around for awhile. We will deal only with people who are strong and who can show us they have staying power. We want to share information and make sure we know what is going on in the marketplace. The intent is to maintain our competitiveness by getting costs out of the system.

As a chemical company, we are in the spotlight of environmental regulatory and safety issues. We must do business with carriers that can conform to or exceed any existing local, national, or international standards, rules, and regulations. Once a carrier is on board, how do we measure it? On delivery schedule, regulatory compliance, shipment integrity measured by claims ratios, condition of equipment, and equipment availability.

We are also looking at administrative performance, billing accuracy, how quickly claims are settled—and we will be doing customer surveys both external and internal. Internal customers are distribution centers, business units. External customers are overseas subsidiaries.

The EKC international liner shipping performance standards are as follows (100% means non-negotiable expectations):

• Delivery Service	
Shipments delivered on time	100%
Containers loaded as booked	100%
Containers sales as booked	100%
Immediate notification of disruptions	
• Equipment	
Loadable containers/chassis	

spotted for loading 100%
48-hour removal of
unacceptable equipment

- Documents
  Timely processing and delivery
  of original bills of lading

- Shipment Integrity
  Shipments delivered free of
  loss or damage 100%
  Claim acknowledgment in 30 days
  Full claim payment in 60 days

- Administrative
  Accurate freight invoices 100%

What sort of performance standards are we looking at? Delivered on time against our mutually negotiated standard. Containers getting on ship as they are booked. We are trying to squeeze the inventory out of the system. When there is a dysfunction in the service, we expect to know about it immediately and we expect to hear about the solution also. Container loading, same thing. Our warehouse has a load for Germany, it is ready to go, it is occupying space on the warehouse floor, we call for that container, and we expect it to be loaded. That may not seem like an issue to you but we currently turn away a good 5 percent of the containers that come into the warehouse for loading.

When a piece of equipment is refused at a warehouse, we expect it to be removed from the premises within 48 hours.

We are really trying to get away from documents, but timely processing and delivery of bills of lading is crucial until we can get into an electronic environment. Shipment integrity—we expect 100 percent of our shipments to be delivered without damage, without loss. If there is a claim, we expect claim acknowledgment within 30 days and we expect full payment within 60 days. Accuracy of freight invoices. We talked about taking administrative costs out of the system. When we put an invoice in, and it is audited and it is incorrect, the effort we go through to get that changed is not productive, not adding value, and costing money. Hopefully by 1992, we will be in an environment where we will be simply remitting electronically on the basis of negotiated rates, not even exchanging invoices.

When we get to the stage where we are linked up electronically for booking, invoices, tracking, the whole gamut, the freight forwarder has no value to the process. This function will disappear. We pay a forwarder a certain amount per bill of lading, steamship lines are paying 2-1/2 percent to that same forwarder, and he is not adding value to the line or to us and is a cost we can get out of the system.

The global coverage we are looking for and the service we are looking for is that the trend toward slot chartering, slot sharing, and vessel sharing, from our perspective, is a very positive one. We feel this will give us added flexibility, added service and make us more able to eventually get to the point where we are really dealing with single sources.

Questions & Answers

* Does some of the criteria give you concern like using only carriers that have a sound financial position? In many cases, the alliances are between a strong carrier and a weak carrier.

We look very carefully at alliances and who is dealing with whom. As far as reduced competition on a lane, traditionally, we have looked to use as many carriers as possible. This is simply going out of style. More and more shippers are going single sourcing, hooking up electronically, integrating operations as opposed to trading off business to various carriers.

WHAT THE SHIPPER EXPECTS

Steve Lucas, Director of Logistics and Operations
Louis Dreyfus Corporation
Wilton, Connecticut

I represent the dinosaur in the maritime industry—dry bulk and wet bulk. Louis Dreyfus Corporation is an exporter and importer of dry bulk and some wet bulk commodities. Everything from corn to boneless beef to orange juice. We are basically in the business of exporting out of this country agricultural commodities, corn, wheat, soybeans, oats, barley, etc.

Two weeks ago there was a sale to the People's Republic of China of U.S. wheat. The difference between doing that business and not doing that business, which was 800,000 to 900,000 tons, was 3 cents a ton. We are in business where all we have to compete with is price. U.S. corn to the Russian purchaser is absolutely no different than the corn he gets from Argentina or anywhere else in the world.

We've talked about double-stack, EDI, the fancy high-technology, new-technology things. I will tell you we are in the low-technology business, physically handling hundreds of thousands of tons of grain every year in this