

- |   |      |
|---|------|
| spotted for loading<br>48-hour removal of<br>unacceptable equipment | 100% |
| ● Documents   |      |
| Timely processing and delivery<br>of original bills of lading       |      |
| ● Shipment Integrity  |      |
| Shipments delivered free of<br>loss or damage                       | 100% |
| Claim acknowledgment in 30 days<br>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

country where gravity supplies about 40 percent of the power inputs to the system of moving that. We lift the grain out of containers, haul it to the top of the elevator and let it drop back down. It works every time. We use inland barge transportation, we use ocean-going, we do occasionally ship by rail. I was told I should mention the new technological innovations in the bulk business. The last big-time technological innovations were the invention of the steam engine, the internal combustion engine, and the electric motor. Watch them load at the Port of Houston and then look at how it was done 100 years ago. There has been no change. We are not on the cutting edge of the technological revolution here.

We use both inland and ocean-going transportation. I try to balance the inflows and outflows of the commodities. Not as easy as it sounds. "Amateurs debate tactics and generals study logistics" is a quote from *Red Storm Rising*. All of the generals in our business study the logistics really carefully because when you have only price to compete with you must have a seamless, organized, efficient system so you have quality performance at a quality price. It must work right every time and the price must be low.

On the inland side, we look for those two criteria from the inland carriers—performance and price. There is nothing more unpleasant than to see a line of trucks a half-mile long outside an elevator when the barge has not shown up on time and to have to tell somebody that he has to tell the guy at the end of the line that he has to be there 5 or 6 hours, and there are not a lot of volunteers for that job. Efficient utilization of our capital assets, the elevators, means the product has to come in on time. We buy from the American farmer. If my costs are higher because I can't get barges placed on time, I can't pay him as much for his soybeans or his corn. He will go to my competitor because all I have to compete with is my price. If barges are delayed coming to the export facility, then I have another problem. I have ships on demurrage and I've got no commodity to load on board. Not a pleasant prospect, and for bulk carriers not a cheap prospect. If the problem is great enough, there is damage to the cargo and spoilage of the cargo and here we are talking about a dead loss. Same way with ocean-going transportation. We expect timely performance and price. When we charter ships, we expect them to show up and on time. If they show up too early, we have one kind of problem. If they show up too late, all those barges are hollering, the elevator superintendents call and raise hell, and it is all translated into costs—each and every time.

I want to talk about infrastructure because many of these things that happen operationally get transferred immediately into price. This is the true free market

economy out here. Adam Smith is alive and well. There are many of buyers and sellers. If one part of it is inefficient, something happens. Ten years ago, the predominant size of ships loaded were the handy size vessels; today almost entirely panamax-class vessels carry goods to the major importing countries of the world.

I think there are some other components that ought to go into the infrastructure other than just concrete and steel. For the inland system, one of the issues that affects the price is the aging of the lock and dam system in this country. The cost of an inefficient locking system to move barges down river is enormous when you have tows waiting 3, 4, or 5 days just to come through a lock. That cost gets passed someplace. In a business such as grain, which is so price sensitive, this doesn't happen very often before somebody else finds a better, cheaper way. Another related issue is the water level management issue that we have run across in the inland system. Inefficiencies—problems because of low water and inability to forecast or control flows—get translated immediately into price. When I have to load a barge to 7 feet rather than 9 feet and I am paying on the same minimum, that comes out of somebody's pocket, and you can't pass it on to the Russians.

Another aspect of the infrastructure that ought to be included in all discussions are "imposed costs." The government has fancier names—like "revenue enhancers" and "taxes." Any of these fees that are imposed from federal, state, or local governments, that add to the costs, only serve to decrease our competitiveness overseas or to reduce our farm income in the United States. Another part of the infrastructure is the information systems. The bulk business being the dinosaur that it is, our information systems are not nearly as sophisticated as EDI and some of the other things. We still rely on the telex, the telephone call, and the fax. We have stumbled along for 125 years this way and we may get a little better at it but there is always the need for accurate, timely information. If that ship owner can't tell me when that ship is due, I can't make an informed decision about how to load, when to load, and where to load. If I make that decision based on some guess, I make the wrong decision both for myself and for the ship owner, which costs us both money.

Another value of timely, accurate information is that it allows us to take advantage of whatever flexibility is in the system. Unlike a particular container that must get to a particular factory or they shut down, we deal with masses of barges coming in, several ships at a time to load down. There is some margin for product substitutability, but without information it is very difficult to make those choices. This applies to both the inland and the ocean-going side.

The two things I want to leave with you are that from a bulk shippers' standpoint only two things are important: price first and acceptable level of performance second.

## REACTING TO SHIPPER EXPECTATIONS

Steve Nieman, Consultant  
Pleasant Hill, California

I am more than modestly intrigued by why it is 1991 and we are just now having a strategic planning conference in marine transportation. The first strategic planning conference I ever attended was in the 1960s. Attending conferences does not ensure success nor does developing a strategic plan. Applying a strategic plan is all that counts. In 1970, I went to another strategic planning conference and learned all about portfolios, but it was all investment banker theory and portfolio management. It wasn't business and it wasn't strategic planning. In the 1980s, I went to another conference. There was no transportation person at either of the first two conferences except me. At the third one, there were several because they were facing deregulation and the theme of the conference was quality. Quality in 1977 was an issue being looked at by Fortune 500 companies. In the 1990s, the topic among strategic planners is customer satisfaction. What do the customers want? This indeed may be the only true functional subject for strategic planners.

Environmental assessment is important. Competitive analysis is part of the question. The only true focus of strategic planning may well be understanding the customer and then exceeding his anticipation.

But it is 1991 and the marine transportation segment is now having its first discussion of what is the state of the art in the industry, what is strategic planning, and what this encompasses. We've got to catch up really fast. One of the reasons there are so many topics flying around the table is because there hasn't been any cohesion in the thinking of the management personnel in the operating and marketing companies about the strategic factors in this business.

On the question of what constitutes customer focus, there certainly hasn't been any cohesive thought. I am now in business for myself, and no longer employed by someone else, so I am freer to make stronger comments than I used to make. There are still a lot of CEOs in transportation operating companies in 1991 that don't think the customer is important. There is still a lot of energy that goes into strategic marketing and strategic planning in transportation, service providers, just trying

to get the senior-most people to listen to what the customer wants.

This leads me to two fast conclusions:

- Asset-intensive transportation companies are being displaced by market-intensive transportation companies because their focus is service not assets.
- Third-party logistics providers are service oriented, but I question whether their service delivery is objective when the company is linked to an asset-owning parent company or affiliate.

What is there out there that we can look to that helps us understand what the customer wants?

Most of what is out there that helps us understand that what the customer wants is not public. It is proprietary. The last 6 years I have spent doing raw, original, customer research in "the intermodal industry" and none of it has been released publicly. There are some significant efforts being made by some major corporations to better understand what it means to be customer-focused in the intermodal business.

A study done for MARAD and the Federal Railroad Administration (FRA) last year by Manalytics, Inc., was operational, data based, and freight-flow intensive. The industry is extremely sensitive to competitive marketing and that is what will drive the future of domestic double-stack container systems as opposed to "Is the freight out there?" and/or "Is the double-stack train a viable economic entity?" Here was a golden opportunity to get some insight into what the marketplace wants and, unfortunately, it didn't answer all the questions.

The *Intermodal Index* is a document that is brand new and a great first start. On the other hand, it is a shame. It is sponsored by the Transportation Committee of the National Industrial Traffic League and the Executive Committee of the Intermodal Transportation Association. It speaks almost exclusively to handling traffic within the continental U.S., which is moving intermodally. There is no differentiation between international or domestic point of origin or destination.

We finally have some findings about what the customers think about this business. The one that has dominated my thinking for 6 years hasn't even been mentioned today. It is that for the consumer of transport services the frame of reference is the U.S. long-haul general freight trucking business. It sets the standard. Another conclusion is that shippers prefer to deal with intermodal third-party providers such as the Fritz Company rather than with the direct operator, or even with a trucking company. They find that the third-party logistics provider is far more understanding and far more responsive to their needs.