

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

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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.

I isolate these two pragmatic elements because they stand in contrast to some of the things that we have been talking about. Yet, they come from a sample of 500+ shippers who are moving freight in the intermodal system every day of the week. I suggest this deserves some thought. It is the first such survey. It will be repeated each of the next 4 years, so it is a compliment to those organizations to fund it for the 5-year trend period. There is nothing better for us strategic planners than a time series. Snap-shot analysis tends to hurt strategic planners while time-series analysis helps them.

Traffic Management Magazine, the current edition, talks about how intermodal stacks up. This is an effort by a publisher to talk to shippers and ask what is good or bad about intermodalism without defining it as domestic, international, blue-water based, brown-water based, or rail-based. There are some very interesting conclusions in it that are not quite as dramatic as the others. If you are an intermodal provider and you don't know what your customers want, this magazine has a service that will do it for you. Just pay them money. They'll even tell you what you ought to be researching. You ought to be researching the marketing or operating companies' characteristics of the tangibles: reliability, responsiveness, assurance, the empathy factor, and price. I happen to agree with that list of five and in about that order.

Reliability and consistency—remarkably, in my work experience you can't get the senior officers of any operating or marketing company to even agree that those are the factors that they should be concerned with. As elementary as it may seem, the marketers and operators of intermodal services, the service providers, are not in agreement as to what factors are important to the customers. Here is a magazine trying to advertise what they are. Unfortunately, this will just engender debate, rather than results among most providers.

The most publicized public source of what customers think of carriers is *Distribution Magazine*, which comes out once a year and for several years has had an interesting rating system by shippers of carriers and an award. Here is a listing of the annual recipients of the award. For the first time, we have recognition of ports, water carriers, rail third parties, intermodal operators, and stack train operators. The majority of the recipients are all trucking companies. The standard of excellence is being set by the trucking industry. Fewer awards were presented to the steamship lines than the average intermodal operator and stack train service provider.

This survey has been going on for several years now by this magazine. Any one carrier can get a continuing track of his performance. It is a relatively broad-based sample but like so many market research techniques it raises a whole host of questions about the validity of it. Carriers have grabbed a hold of it because it is in vogue to have a quality program, it is wonderful to be awarded a quality recognition award from a public source, which public source used shippers to do the evaluation.

Just a word of caution about market research techniques in this industry. This is a soft subject. Easy techniques are available and used by many. I would suggest the subject is not susceptible to accurate analytics by easy, cheap techniques. There are a lot of peddlers calling on the carriers and marketers saying I'll survey your customers, and I'll only charge you \$10,000. It has been my experience that the subject is a complex one—and a quickie survey of a few customers may be doing more injustice than good. A one-time survey as opposed to a time series survey is risky and a survey that is sponsored by a vested interest is inherently suspect.

Referring to the two previous speakers who purchase transport services, you heard factual content because they buy transportation service. You heard a couple of common points even though they disagree on which comes first—the price or the service. They both did state that you had to have the service. Jim Lamb said that often transportation costs define the economical reach of their product in the market. This is true when you are a commodity-based business. They both talked about the value of combining purchases or getting full leverage. Steve Lucas is the pure economic customer. To me as a supplier, he is an easy customer. His demands are straightforward and anything I can do to take cost out of the system and immediately put it into his profit is desirable. Conversely, if I offer him a track record of poor service due to costly add-ons, interruptions, or difficulties, I am not offering a viable service to this customer.

Conclusion

When you think about strategic planning, it is a matter of defining what business you are in. How can you know what business you are really in until you know who the customer is, what he wants to buy, why he is buying it, and how he prefers to buy it? It is a matter of what business the customer thinks you are in.