

HE
215
.C2
E4

Canada

MANAGING TRANSPORTATION SERVICES EFFECTIVELY AND PROFITABLY



Government
of Canada

Regional Industrial
Expansion

Gouvernement
du Canada

Expansion industrielle
régionale

MANAGING TRANSPORTATION SERVICES

EFFECTIVELY AND PROFITABLY

**DEPARTMENT OF REGIONAL
INDUSTRIAL EXPANSION
LIBRARY**

FEB 5 1988

**BIBLIOTHEQUE
MINISTERE DE L'EXPANSION
INDUSTRIELLE REGIONALE**

Service Industries Branch
Department of Regional Industrial Expansion
December 1986

FOREWORD

This report studies the transportation services management of 50 selected small and medium-size Canadian companies to determine how such services are managed for cost-effectiveness and efficiency, and to measure the impact on the companies' overall competitiveness.

The report was designed to draw attention to the importance of effective transportation management. However, the views and opinions expressed are solely those of the author (E.M. Ludwick & Associates Inc., Winnipeg) and of the survey participants, and do not necessarily reflect the views of the department.

Additional copies of this report may be obtained from:

Service Industries Branch (ISEI)
Department of Regional Industrial Expansion
235 Queen Street
Ottawa, Ontario
K1A 0H5

TABLE OF CONTENTS

	<u>PAGE</u>
1. INTRODUCTION	1
2. EFFECTIVE TRANSPORTATION MANAGEMENT	2
3. CONCERNS AND RECOMMENDATIONS	4
4. QUESTIONS TO CONSIDER IN SELECTING TRANSPORTATION SERVICES	5
Questions For Your Customer	5
Questions To Ask Yourself	5
Questions For or About Carriers and Intermediaries	6
Questions To Ask After the Shipment of Goods	8

INTRODUCTION

In the fall 1985, the Service Industries Branch of the Department of Regional Industrial Expansion engaged E.M. LUDWICK & ASSOCIATES INC. of Winnipeg to undertake this study of the selected 50 small and medium-sized Canadian companies.* The purpose of the study was to determine how the transportation service component in each firm is managed with particular emphasis on efficiency, cost-effectiveness and its impact on the overall competitiveness of the firm.

Since the specific techniques used to manage transportation services and individual operating circumstances vary substantially among firms, it is difficult to judge, in a quantitative manner, whether a firm manages transportation to its competitive advantage. Firms most likely to be effective transportation managers are those which:

- ° recognize transportation services as an important cost of doing business which can be controlled to improve competitiveness and enhance profits;
- ° devote the required staff resources (as appropriate to particular volume and market considerations) to managing the transportation service function or hire outside expertise to provide advice and/or act on their behalf; and
- ° are satisfied (or are working toward satisfactory levels) with the efficiencies they are achieving through transportation and distribution management.

The firms interviewed ship a wide range of products to domestic, transborder and overseas markets, making use of various terms of trade and means of transport according to their needs. These companies have recognized the importance of transportation and distribution management in improving efficiency, competitiveness and profitability. They have been willing to share many valuable transportation lessons with their counterparts who have paid little attention to transportation management or who have relegated this function to a subordinate or ancillary role.

Interviews were held as follows:

<u>Region</u>	<u>Number of Firms Interviewed</u>
British Columbia	6
Prairies	11
Ontario	17
Quebec	11
<u>Atlantic</u>	<u>5</u>
TOTAL	50

* For the purpose of this study, small firms are generally defined as those with sales of up to \$2 million per year and up to 50 employees, while medium sized firms are those with sales of \$2 million to \$20 million employing up to 200 people.

A formal survey questionnaire, on which the full report is based, covered specific elements:

- ° a description of the transportation service component in the operation of selected firms in the various regions of Canada;
- ° a comparison of transportation service options available in the domestic, transborder and international markets and their impact on the competitiveness of Canadian firms. The survey probed information sources, what is available to the competition, and leakage of shipments to foreign transportation systems;
- ° a listing of shipping-related irritants to firms, for example, the problems in buying transportation services, carrier operations, infrastructure, regulations and hidden costs;
- ° an analysis of the elements of a successful transportation services management concept within today's changing environment; and
- ° recommendations for improvement, and an assessment of the impact of deregulation, other regulatory reforms, new services, increased competitiveness and new markets.

There are various strategies and tactics used by firms in managing their transportation requirements, key common elements of which are outlined in the section entitled "Effective Transportation Management".

In general, no insurmountable transportation problems were discovered which cannot be resolved through proper staff training. The 50 small and medium-sized companies studied have recognized the importance of transportation service management, have devoted appropriate staff resources to this function and report beneficial results.

EFFECTIVE TRANSPORTATION MANAGEMENT

The question of whether or not a firm manages transportation effectively is largely subjective and the answer depends on the particular characteristics, circumstances and management style of the individual companies. Factors, such as product weight and value, product differentiation, raw material sourcing, market orientation, productivity and profit goals and achievements as well as overriding customer service requirements, all play a part.

Based on the consultants' observations, a firm not considered an effective manager of transportation is one for which:

- ° the idea that managing transportation services to improve profit margins and, ultimately, market competitiveness, simply has not been considered; and

- ° the devotion of staff resources or the hiring of outside transportation professionals to manage transportation represents nothing more than an additional fixed overhead cost.

Conversely, a firm which effectively manages transportation:

- ° recognizes transportation services as an important cost of doing business which can be controlled to enhance profits;
- ° devotes the required staff resources (as appropriate to particular volume and market considerations) to managing the transportation service function or hires outside experts, such as freight forwarders and consultants, to act on its behalf; and
- ° is satisfied (or is working toward a satisfactory level) with the efficiencies it is achieving through transportation and distribution management.

To the extent that they meet the above criteria, all of the 50 firms studied in this project are effective managers of transportation services. Even among these firms, however, there is substantial variation in the strategies and tactics used to manage transportation services effectively. No two firms are exactly alike and companies which may appear to be similar will use different techniques to achieve transportation-related efficiency and profitability objectives.

Despite these variations, several commonly recurring practices can be considered key elements in successful transportation management for small and medium-sized Canadian companies. A successful manager of transportation services most likely:

- ° determines and evaluates, on an ongoing basis, the company's present and potential future service and rate requirements;
- ° makes effective use of transport suppliers' knowledge and experience by explaining service and rate needs fully, requesting innovative cost-effective service and rate alternatives, and co-operating with the supplier to ensure that the goods are delivered safely, expeditiously and economically;
- ° researches new and/or innovative transportation alternatives and transport suppliers by shopping around, negotiating, and analysing the successes and failures of individual movements and suppliers;
- ° keeps abreast of changes in the transportation environment by discussing issues with other firms in the community, participating in relevant industry associations, and reading transport-related publications; and
- ° in cases where it is not possible to do all of the above, uses knowledgeable outside experts, such as transportation intermediaries, who can assist companies by effectively managing transportation services on their behalf.

CONCERNS AND RECOMMENDATIONS

In addition to sharing the elements of successful transportation and distribution management, a number of the 50 firms interviewed also raised several transportation-related concerns and offered suggestions for government legislative, policy and/or program action.

Most firms would like to see governments play a less intrusive role in the area of transportation and distribution. Therefore, they generally favour deregulation of transportation services in Canada, feeling that the resulting competitive environment would reduce freight rates. Several companies have already benefited from transportation deregulation in the United States and expect that regulatory reform in Canada would yield similar positive benefits. However, firms urged a cautious approach to deregulation to ensure that service standards are maintained. Moreover, they would like to see decisions made quickly as the present situation is uncertain.

Mixed feelings were expressed on the issue of government financial assistance. Many companies considered that government subsidies hinder firms' initiatives. Others, particularly firms in Atlantic Canada, stated a need for government assistance. Some participants questioned discriminatory government protection policies (i.e., tax breaks on gasoline purchases for the farming industry and protection of regions such as the Maritimes), feeling that such assistance should be made available either to all Canadian firms or to none.

Several firms mentioned a few regionally specific transportation irritants, largely in provincial trucking regulations, such as a need to relax licensing restrictions imposed on companies operating private fleets to allow backhauling of other firms' goods, and a desire to permit Sunday trucking in Quebec. One concern, affecting both federal and provincial jurisdictions, was the need for flexibility in the application and enforcement of dangerous goods regulations.

The most prevalent concerns were for education and information needs, which could be alleviated by appropriate federal government action. Firms would like easily accessible and clear information on state and provincial trucking regulations, and assistance with export documentation requirements.

A more general area requiring attention is the need to sensitize senior corporate management, who are not trained in transportation management to the importance of transportation and distribution management in enhancing firms' competitiveness and profitability. Owners and managers of many smaller businesses are simply unaware of and, therefore, unconcerned about the cost savings which can be achieved through careful transportation management.

The 50 companies interviewed have recognized the importance of transportation service management and, as a result, have benefited by improved efficiency, competitiveness and profitability. It is, therefore, recommended that a shipper outreach/education program be established. Initiatives could include the widespread dissemination of this report, education seminars and, perhaps, government-sponsored short courses in transportation management. Such courses could be aimed at individuals who have had transportation

responsibilities thrust upon them without the benefit of experience or formal training, and company managers or owners not yet appreciative of the potential benefits of effective transportation management.

QUESTIONS TO CONSIDER IN SELECTING TRANSPORTATION SERVICES

In addition to describing the techniques they use in managing transportation services effectively, the companies interviewed offered numerous ideas for improving transportation and distribution management by small and medium-sized firms. The following list of questions shippers should ask their customers, themselves and transportation companies will help Canadian companies manage transportation to their best advantage.

Questions For Your Customer

- ° Are customers willing to pay for freight and duty charges on top of the cost of the goods or do they want an all-inclusive delivered price quote?
- ° Do customers prefer to arrange and pay for the transportation themselves?
- ° How urgently (within how many days) is the shipment required?
- ° Will the customer slightly increase or decrease the order size to fit standard shipping sizes such as for pallets or containers?
- ° Do customers have space available in private fleets of trucks returning from delivery of their products to customers in your area?
- ° Can customers recommend a good transportation organization with which they are already doing substantial business and receiving discounts?
- ° Can the customer arrange consolidation of your shipment with various other inbound shipments to benefit from a lower freight rate?
- ° Do your customers have their own rail sidings or are they located near airports?

Questions To Ask Yourself

- ° Is a capable person within your firm responsible for paying regular attention to the transportation and distribution function?
- ° Have you researched each movement to determine the most efficient methods of transportation, including new or innovative methods?
- ° Are you aware of transportation regulations that affect your company, particularly the rules and permit requirements that apply to the operation of a private fleet?

- Have you checked with all your production departments or sales people to see if there are several shipments going to the same city (or points nearby) which can be consolidated into a larger load?
- Is there another nearby company that might be interested in pooling shipments with you to get a better rate?
- Have you prepared an accurate description of your goods so that they may be properly classified by carriers?
- Is your product susceptible to damage and does it require special packaging or crating and insurance for a long-distance haul?
- Can your product be knocked down and packaged as compactly as possible or even be redesigned to increase weight per cubic metre or per cubic foot?
- If you have your own fleet of trucks, can you spare one for a particular journey, will you be able to arrange a return load and are you convinced you can haul goods more cheaply than common carriers or intermediaries?
- Is your own fleet of trucks available to haul the goods short distances to carriers' local or U.S. border terminals?
- If you are thinking of using your own fleet, have you worked out a "per kilometre" or a "per mile" truck operating cost to help you evaluate rates charged by carriers and intermediaries?
- Is your plant equipped with a rail siding or located near an airport?
- If you are unsure as to which transportation service organizations are best for you, have you checked with colleagues in your industry or with transportation consultants in your provincial government?
- Do your sales forecasts allow you to offer carriers large and/or regular volumes over time in return for lower rates?
- Can you prepare all of the necessary export documentation yourself or would you feel more comfortable having an intermediary do it on your behalf for a small fee?
- Having answered all of these questions, which transportation alternative is best for you and which kind of transportation companies should you be calling upon?

Questions For or About Carriers and Intermediaries

- Is there more than one company offering service on a particular route or between city pairs and, if not, are alternate routes and carriers available?

- ° Have you checked with more than one carrier before making a decision to ship?
- ° For purposes of comparison, did you check with carriers' offices at the destination city to attempt to secure backhaul rates?
- ° Have you included intermediaries, such as shippers' agents, forwarders, brokers and shippers' associations (if you are a member), in your evaluation?
- ° Have you sought out carriers who would normally return to your market area empty and who are willing to offer attractive rates on backhauls?
- ° Does the carrier have legally licensed operating authority to haul goods on the route?
- ° Is the company well established (i.e., does it have a track record)?
- ° Does the company offer:
 - through bills of lading?
 - proper equipment on demand?
 - computerized shipment tracing?
 - a guaranteed delivery schedule?
 - sufficient insurance coverage (liability)?
 - discount plans?
 - customs brokerage and export documentation services?
 - other unique services?
- ° Have you tried to negotiate freight rates and services with carriers rather than simply accepting quoted information?
- ° Will the goods be shipped directly from origin to destination by the same carrier or, if not, how many (and which) carriers will be involved?
- ° If several carriers are to be involved, who has the final responsibility (liability) for the safe delivery of the goods?
- ° Can somebody in your industry association or a colleague in your community give the transportation company a good reference (or have you asked the company for references)?
- ° Has the company quoted you an all-inclusive rate and guaranteed delivery time? (Avoid companies that will not commit themselves to a rate or that will let you know how much the cost is after the fact.)
- ° What extra costs (if any) will you have to incur beyond the cost quoted?
- ° Are you satisfied that the transportation company, rather than your company, will be fully liable for the safe delivery of the goods?

Questions To Ask After the Shipment of Goods

- ° Did the customer receive the shipment on time and in good order?
- ° Do your customers have any suggestions or complaints which will facilitate future shipments?
- ° After you have received payment for the goods and have paid all transportation and related charges, did you make a profit on the shipment?
- ° Have you audited your waybills for invoicing errors which, if corrected, could result in potential cost savings?
- ° If you lost money, have you analysed what went wrong to see if there is a better arrangement that can be made for the shipment?
- ° If you used an intermediary for your first few shipments, are you now familiar enough with the territory, or are your sales volumes growing enough for you to deal with carriers directly?
- ° When using a carrier or intermediary on subsequent occasions, are you comparing current rate quotes with past rates to make sure you are paying no more than you did the last time?
- ° Have you explored the possibility of subscribing to computerized transportation service and rate information systems?
- ° After using a transportation organization for several shipments, have you re-evaluated other organizations to see if you are still getting the best rates and service?
- ° If you have regular shipments and are knowledgeable of your commodity characteristics and service requirements, have you considered negotiating specific commodity rates (as opposed to class rates) with common carriers?
- ° Are your sales within a region growing enough for you to consider larger volume shipment consolidation to a central warehouse for redistribution to your growing list of customers?
- ° Are you reading trade and transportation publications and generally keeping your eyes open for new, innovative and, perhaps, cheaper transportation alternatives?
- ° Have you analysed the changes to the transportation environment to determine the opportunities and threats that may affect your company?
- ° Is it possible to establish shipping policies, i.e., minimum shipment/order size, to help reduce transport costs?

