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PAYING MORE for less

Our 13th annual Masters of Logistics survey finds that shippers are shelling out more for freight transportation while getting less in return from carriers.

BY **JAMES A. COOKE,** EXECUTIVE EDITOR

Shippers are paying more for transportation at a time when carrier performance is slipping. That message rings out loud and clear in the results of this year's Masters of Logistics survey, which polls logistics managers on their transportation and distribution practices.

Over the past 13 years, the study—previously called "Giants of Shipping"—has successfully highlighted emerging trends in logistics and distribution. Originally developed to compare the practices of large companies to smaller ones, over the years the survey has detected few significant differences between big and small shippers. Nevertheless, the Masters of Logistics survey has evolved into a powerful benchmarking tool, providing data on current practices and evidence of which shippers have mastered the art and science of logistics.

As in years past, *Logistics Management* conducted the study in conjunction with researchers at Georgia Southern University, the University of Tennessee, and consultants Capgemini. This year, the software firm Oracle Corp. joined the research team.

Just over 500 *Logistics Management* readers responded to the online survey. As with any research project, the respondents' demographics change from year to year. For example, the distribution/warehousing/wholesale industry was surveyed for the first time this year, accounting for 16 percent of the respondents. Because this new group was added, the percentage of participants hailing from other sectors declined. The number of respondents from general manufacturing companies fell from 21 percent last year to 14 percent this year. The number of respondents in consumer products manufacturing, meanwhile, declined from 26 percent to 15 percent. Retail accounted for 4 percent, as opposed to 10 percent a year ago.

Of note, more than twice as many respondents came from small companies than did last year. Some 41 percent said their employers reported total sales of less than $250 million, compared to 18 percent last year. Another 16 percent work for companies with earnings of $250 to $500 million. On the other end of the scale, about 10 percent of the survey takers reported company sales in excess of $9 billion. Overall, respondents to this year's study accounted for an estimated $43.4 billion of transportation spending, based on a tally of individual responses regarding annual expenditures.

FREIGHT COSTS ON THE RISE

Over the past two years, shippers participating in our survey have focused their attention on cost control. Despite those efforts, this year's respondents said they're paying more for freight transportation—no surprise in view of the rate hikes that carriers across all modes have implemented to cope with rising energy and regulatory costs.

Indeed, 75 percent

FIGURE 1

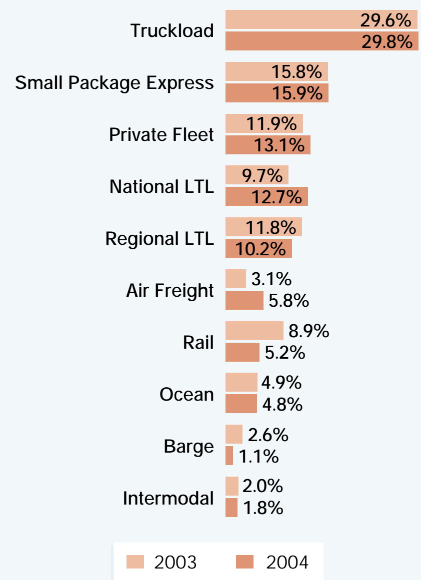

ILLUSTRATION BY MICHAEL WITTE

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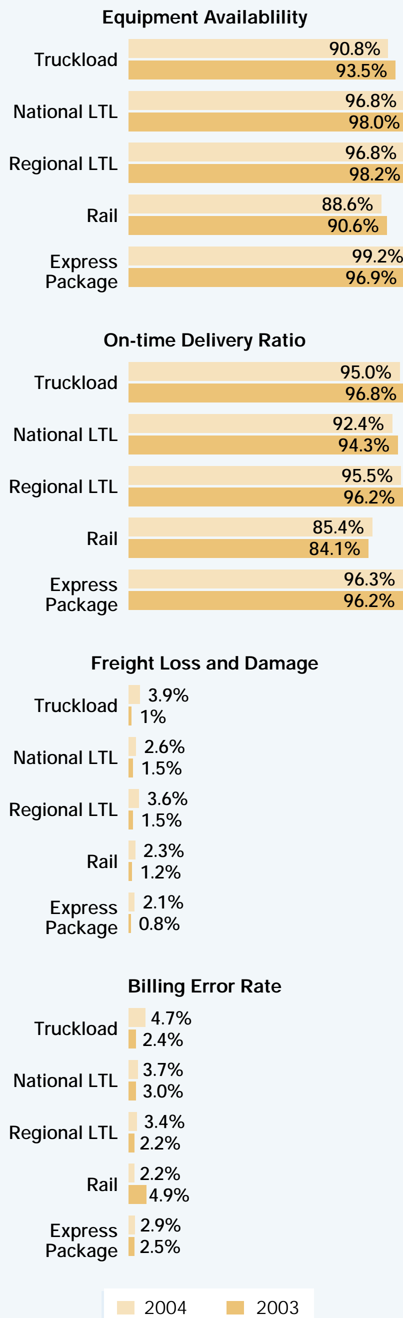
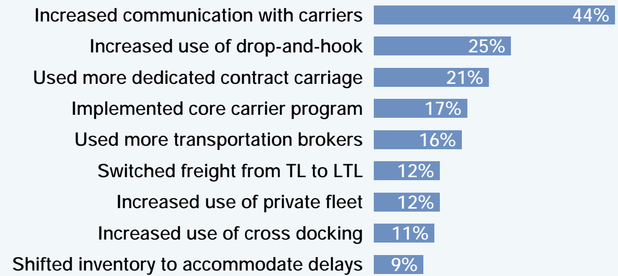
of respondents said they were spending more on domestic transportation than they did in the prior year, and 48 percent said that their cost of domestic transportation as a percentage of sales had risen.

When those answers were broken down by mode, it was clear that truckload transportation has been the biggest cost concern for shippers this year. More than half (55.7 percent) of truckload shippers reported spending more on that service than they did last year. Just over four in ten (41.3 percent) ocean shippers said their freight spending had increased compared to the previous year, while an even 37 percent of intermodal shippers and 30 percent of small-package shippers also reported higher freight costs. In the middle were air freight (20.4 percent) and regional less-than-truckload (LTL) at 20.1 percent. Private fleets (19.7 percent) and rail (18.2 percent) followed close behind. The bargains were in national LTL and barge shipping, where only 4 percent and 5.6 percent of shippers, respectively, reported spending more on transportation this year.





When shippers were asked to break down their transportation expenditures by mode, their answers revealed some interesting shifts. For instance, in a departure from recent years, shippers increased their spending on national LTL. That spending rose to 12.7 percent of their transportation dollars, up from 9.7 percent last year. This may reflect the impact of the new hours-of-service (HOS) regulations, which has led some shippers to rethink their use of truckload carriers now that they must pay extra charges for multi-stop shipments.

That may indeed be the case, yet truckload spending as a percentage of the total budget was virtually unchanged at 29.8 percent, compared to 29.6 percent last year. One possible reason is that rising truckload prices made up for any shift to national LTL. Spending on regional LTL, meanwhile, fell from 11.8 percent to 10.2 percent.

Last year, spending on rail transportation rose for the first time in three years. This year, though, shippers gave just 5.2 percent of their freight dollars to rail—a big drop from last year's 8.9 percent. On the other hand, shippers spent more on their private fleets (11.9 percent in 2003 and 13.1 percent in 2004), perhaps indicating that the HOS rules have prompted them to expand their use of company-controlled trucks. (See Figure 1.)

Respondents said they were using more carriers in almost every mode, suggesting that they have been re-examining their core-carrier strategies. More than one-third (34.4 percent) reported that they increased the number of truckload carriers they use. Similarly, 28.1 percent boosted the number of ocean carriers they work with. In fact, shippers said they are using more barge, intermodal, small package, national LTL, and airfreight carriers. Only one category—regional LTL—saw a decrease, and that was a very slight decline.

SUB-PAR PERFORMANCE

Poor performance could also be a factor in shippers' decisions to expand the number of carriers they use in all modes. The study found disconcerting signs that carriers' performance has been slipping across the board. (See Figure 2.)

Respondents reported trouble getting equipment when they wanted it from truckload, national LTL, regional LTL, and rail carriers. Truckload haulers, for example, supplied equipment as requested 90.8 percent of the time this year, versus 93.5 percent in 2003. There are several reasons for that decline, says report co-author Dr. Mary Holcomb of the University of Tennessee. "It isn't

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about equipment availability, it's about driver shortages, too little capacity, and too few hours of operation," she explains.

National LTL carriers made equipment available when requested 96.8 percent of the time, compared to 98 percent last year. Regional LTL carriers slipped here as well, tendering tractors and trailers 96.8 percent of the time, compared to 98.2 percent last year. Like their truckload competitors, rail carriers can't find enough equipment to meet demand. This year, railroads managed to provide equipment 88.6 percent of the time, down from 90.6 percent in 2003.

According to respondents, carriers are also struggling to meet delivery targets. Logistics executives reported that truckload carriers delivered 95 percent of their shipments on time in 2004, compared to 96.8 percent last year. National LTL carriers only met their delivery commitments 92.4 percent of the time, down from 94.3 percent last year.

Regional LTLs fared just as poorly, bringing in 95.5 percent of their loads on time, compared to last year's 96.2 percent. Only railroads improved their on-time performance, delivering 85.4 percent of all shipments on the dot, as opposed to 84.1 percent last year.

Freight loss-and-damage claims doubled in the five modes measured. This year, shippers reported that 3.9 percent of their total truckload shipment volume incurred loss-and-damage claims, up from 1 percent last year. The percentage for national LTL climbed from 1.5 to 2.6, while regional LTL rose from 1.5 to 3.6. Meanwhile, rail claims increased from 1.2 to 2.3 percent of all shipments, and express package claims soared from 0.8 last year to 2.1 percent today.

Respondents experienced similar increases in the percentage of billing errors out of total billings during the past year. The average billing error rate for truckload carriers jumped from 2.4 percent to 4.7 percent. National LTL increased from 3 percent to 3.7 percent, while regional LTL rose from 2.2 percent to 3.4. Express package carriers' error rate rose slightly, from 2.5 to 2.9 percent. The only group that could boast of a decline was the railroads, with a 2.2 percent error rate, compared to 4.9 percent last year.

"This is a critical slide in performance for shippers," says Dr. Karl Manrodt of Georgia Southern University, one of the study's authors. "Shippers are working to differentiate themselves in a tight market. Unfortunately, it doesn't look like carriers are helping them make the case."

Because of the controversy this year surrounding the introduction of the new hours-of-service rules for truck drivers, the researchers asked respondents to comment on its impact. Nearly half—46 percent—reported that the HOS rules had either a significant or a very significant impact on their distribution practices. Another 30 percent said the rules had little or no significant impact on their operations. The remaining 24 percent said the new rules had no effect.

Respondents reported that they had taken a number of actions to respond to the impact of the HOS rules on their businesses. First and foremost, 44 percent said that they improved communication with their carriers. Another 25 percent increased their use of drop-and-hook shipping, while 21 percent said they utilized more dedicated contract carriage. (See Figure 3 on Page 37.) "Shippers have a compelling reason to become carrier-friendly," says Peter Moore, a vice president with Capgemini. "The carriers and owner-operators know where they are treated as professionals and can get loaded and unloaded quickly. Those are the shippers who will get the best service."

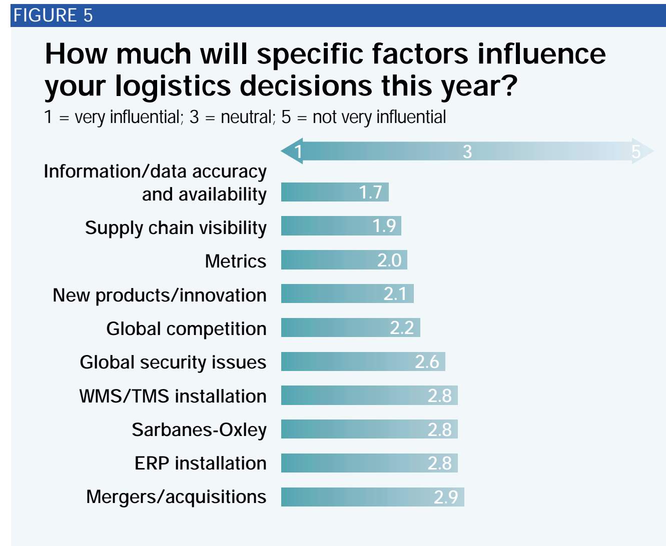
FOCUS ON CUSTOMER SERVICE

The survey results indicate that shippers continued to keep a tight lid on inventory over the past year. Logistics managers told us that on average, they had 12,997 stock keeping units (SKU) in their warehouses, a sharp reduction from the 16,175 units held last year.

The average number of days' worth of sales held in inventory for finished goods (in other words, the average number of days it takes to sell inventory) stood at 32.8 in 2004. That's a noticeable drop from 2003, when respondents reported an average of 35 days, but still higher than it was in 2002. (See Figure 4.)

Although respondents kept smaller stockpiles and fewer SKUs in their warehouses in the last year, they didn't keep pace with last year's inventory velocity. The average number of inventory turns in 2004 dropped to 12.8, a sharp decline from last year's 19.8 turns but right in line with the 12.5 turns reported in 2002. One possible explanation for that decline is that with fewer goods in storage, there may be less need for high rates of inventory turnover.

To deal with a host of challenges in the coming year, logistics managers will re-



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quire a steady supply of accurate information. "With the advent of [the] Sarbanes-Oxley [Act] and Homeland Security initiatives, we are seeing a significant upward trend in spending on logistics applications," says Jeff Abbott, senior director of Supply Chain Applications for Oracle.

"Shippers and carriers are both concerned about data integrity."

That's why it was no surprise when respondents said that data accuracy and availability would have the greatest influence on their actions in the coming year. Supply chain visibility came in second, followed by the adoption of metrics—an indication that managers are trying to benchmark every activity to ensure competitiveness in all aspects of the supply chain. Security issues, which received much attention this past year, fell in the middle of the list of influencing factors. (See Figure 5.)

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>
> —Dr. Karl Manrodt, Georgia Southern University

This year the study detected a shift of direction in corporate strategy. Over the past two years, respondents had indicated that cost cutting was their primary strategy. With freight rates rising, though, shippers may have resigned themselves to higher costs. Whatever the reason, this year only 16 percent of the participants named cost leadership as the primary strategy for their business units, down from 22 percent last year.

Instead the most important strategic focus was customer service, cited by 36 percent of survey participants. That same message of renewed interest in customer service at the expense of cost control came through when respondents were asked about their overall objectives or goals. Only 35 percent of respondents said that the overall goal for their business or division was cost reduction, compared to 47 percent last year. Nearly one-third (32 percent) said that increasing customer satisfaction was their overall objective, a notable increase from last year's 19 percent.

Whether it's due to resignation over their inability to control rising costs or simply a need to please customers in a highly competitive environment, shippers clearly have shifted their emphasis back to customer service for the first time in many years. If that continues, this year's slip in carrier performance could become a significant concern, and shippers will have to work more closely with their carriers to maintain the high levels of service their own customers demand.

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