

## Industry Insights

### Average Fuel Prices Rise to Record Levels

The average retail price of diesel fuel in the United States rose to \$2.21 per gallon in late October, according to reports to NASSTRAC from the Department of Energy. This follows significant increases throughout September, when the national average had already risen above \$2 for the first time ever. Retail diesel prices are reflecting not only the rise in crude oil prices, but also pressure from strong demand and high spot prices for heating oil, according to the DOE. The trucking industry burns an estimated 650 million gallons of diesel fuel each week, a reason why rising prices are of such concern.

You can find weekly average diesel prices (national and regional) as reported by the DOW to NASSTRAC at [www.NASSTRAC.org](http://www.NASSTRAC.org).

## From Washington

### NASSTRAC Files Response in Reaction to Hours of Service

NASSTRAC filed a response in early September in support of the motions by the Federal Motor Carrier Safety Administration (FMCSA) and the American Trucking Association (ATA) for a stay of the court's July 16 decision to strike down the new Hours of Service regulations.

The response pointed out that safety interests would not be served by reviving the old regulations, let alone by allowing uncertainty and chaos if the court decision is not stayed. NASSTRAC also pointed out the need for the court to consider shipper views (FMCSA's stay motion does not mention shippers) and that the failure to stay the decision pending action by FMCSA on remand would lead to disruption and confusion.

To obtain a copy of the filing, email [Brian@NASSTRAC.org](mailto:Brian@NASSTRAC.org).

# NASSTRAC Shipper of the Year: A Case for Sole Sourcing

*Most shippers are leery of giving all their business to one carrier. But Best Buy found out that an exclusive relationship can yield greater savings, efficiencies, and customer loyalty.*



**Logistics Management magazine featured this article on Best Buy, NASSTRAC's 2004 Shipper of the Year, in its October edition.**

By James A. Cooke, Executive Editor, *Logistics Management Magazine*

**Partnerships.** For years, shippers and carriers have talked about forming "true partnerships" as a way to cut logistics costs and increase efficiencies. All too often, though, both parties find that those relationships are constructed on little more than lip service and sales spin. Logistics managers at Best Buy Co. Inc. believe that their partnership with UPS just may break that mold. The Minneapolis-based retailer had been giving its parcel business to several carriers. "Not that long ago, we did an insignificant volume with UPS and we did an insignificant volume with other competing carriers," says Wayne Bourne, Best Buy's Vice President of Transportation. "Then we sat down with UPS and discussed how we could mutually grow our business relationship."

What prompted those discussions was Best Buy's incursion into online retailing. The company's initial experience with serving online customers prompted its logistics managers to re-examine their approach to parcel shipping. They concluded that a single-source program with one carrier would improve efficiency and cut the retailer's distribution costs. For Best Buy, which ships more than 320,000 parcels per month, the sole provider arrangement has also improved customer service in these tight-fisted times. "We probably aren't shipping more volume," says Chuck Dow, Best Buy's Director of Logistics. "We're just shipping it more efficiently and economically."

*(Continued on page 2)*

# NASSTRAC Carrier of the Year Awards Announced

**NASSTRAC announced the recipients** of its 2004 Carrier of the Year Awards in mid-September during the Fall Conference at Georgia Tech Conference Center in Atlanta. Through this annual award, shippers recognize eligible carriers that have demonstrated excellence in key areas of importance: customer service, operations, pricing, business relationship, leadership and technology. Shippers who are members of NASSTRAC are eligible to grade the carriers they utilize, using a four-point grading system.

This year, there were a number of enhancements to the voting process of this prestigious awards program, according to Janet Kemp, Transportation Manager for Grainger Industrial Supply, who is NASSTRAC's current provider relations chairperson:

- The categories by which shippers graded carriers were altered slightly from years past to ensure that carrier characteristics most important to shippers were considered.
- The four-point grading system was used in each of those categories to make sure the grading process was as well-defined as possible.

- Shippers were asked to grade only those carrier who they have used in the past 12 months, which creates a more "experienced based" awards program (rather than a "perception based" program).
- Shippers were given the option to vote electronically this year, which made participation quick and easy. In fact, completing the entire ballot on average this year took less than 10 minutes.

Receiving the prestigious NASSTRAC Carrier of the Year Awards in 2004 are:

- National Category: Roadway Express*
- Multi-Regional Category: FedEx Freight*
- Regional-West Category: Oak Harbor Freight Lines*
- Regional-East Category: Southeastern Freight Lines*

"NASSTRAC continually encourages performance excellence in the transportation industry, and the Carrier of the Year Awards Program is one way NASSTRAC is doing so," said Kemp. For additional details on NASSTRAC or its 2004 Carrier of the Year Program, visit [www.NASSTRAC.org](http://www.NASSTRAC.org) or call 952/442-8850.



Leaders receiving the 2004 NASSTRAC "Carrier of the Year" award were on-hand to discuss what it takes to deliver premium service. From left to right: Jim Staley of Roadway Express; Dennie Carey of FedEx Freight; David Vander Pol of Oak Harbor Freight Lines; and Jim McCallie, Southeastern Freight Lines.

(Continued from page 1)

This sole-provider program has worked out so well for Best Buy that it has earned the retailer the 2004 NASSTRAC Shipper of the Year Award. This award is presented annually to a NASSTRAC member for best practices achievements in transportation and distribution. Eric Morley, Best Buy's Director of Carrier Relations, accepted the award last month at NASSTRAC's annual Fall Conference at Georgia Tech Conference Center.

## Parcels Become a Priority

Best Buy sells consumer electronics, personal computers, software, and appliances through a network of 750 stores in the United States and Canada. In addition to in-store sales, the company also sells merchandise through four different Web sites, including its best-known site, BestBuy.com.

The retailer operates eight distribution centers nationwide and fulfills online orders from three of those facilities. Best Buy spends the lion's share (about 80 percent) of its corporate transportation dollars on truckload movements from the distribution centers to the stores. Another 10 percent of that budget goes for LTL carriage, mostly for inbound shipments from suppliers to the DCs. The remaining 10 percent is spent on expedited freight and small package shipments.

Although online sales are growing, they still only account for about 20 percent of the retailer's parcel volume. The balance typically are inbound shipments destined for the distribution centers, or returned goods heading from the DCs back to the vendors.

At first the specialty retailer relied on a third party for order fulfillment and shipped packages with several major parcel carriers. "Those were the days before BestBuy.com really fired up," says Eric Morley. "Back then we were busy focusing on truckload and big shipments."

As online sales became a strategic part of its business, the retailer shifted responsibility for online fulfillment to its own distribution centers. That prompted the logistics department to take a hard look at its expedited freight and small package shipping practices.

Best Buy's logistics managers reevaluated those practices in light of the company's twin goals of better customer service at a lower cost. "At Best Buy right now, we have a real focus on customer-centricity. How we apply that in logistics is to be more customer-focused and reach out to the customer," says Morley. "At the same time, we want to be more lean and efficient as an organization. That's the path we're marching down."

In 2001, Morley and his colleagues concluded that “one-stop shopping” would be the optimal way for the huge retailer to achieve both goals. “It makes it so much simpler when you’re talking about a company (like Best Buy) that has nearly 100,000 employees. You know who you’re going to use and who’s going to show up at your door,” he says. “It drives a lot of efficiency.”

Three years later, every employee at Best Buy’s stores and distribution centers knows that they may only use UPS for small package shipments—a crucial point in imposing a shipping discipline that helps rein in expenses.

Best Buy uses proprietary software supplied by UPS, which analyzes the origin and destination ZIP code pairs to determine the most economical routing that meets the delivery commitment. For example, if a store manager wanted to ship a package from Chicago to Minneapolis and selected two-day air service, the shipping system would automatically choose ground service because it could meet the two-day delivery requirement at a lower cost. In most cases, Bourne notes, an expedited shipment will automatically default to second-day p.m. deliver unless there are special circumstances that require faster service.

In addition to deliveries to online customers and movements between some vendors and the DCs, UPS handle Best Buy’s repair shipments. When a customer brings an item to a Best Buy retail outlet for repairs, the parcel carrier brings the product in need of fixing to the appropriate repair center, and often delivers the refurbished product to the customer’s home.

**The “What-If Department”**

Using a single carrier for parcel movements has done more for Best Buy than simply cut its transportation costs. For one thing, it has made rate auditing more efficient and accurate, says Chuck Dow. “We have a third-party audit firm that looks at freight invoices by mapping them to rate structures,” he explains. “It helps us with billing accuracy (because) when we apply costs across the enterprise, they are correct and accurate... and we can track package costs down to the SKU level worldwide.”

It has also led to some creative problem solving by UPS employees and their Best Buy counterparts. Bourne says that during early discussions, Best Buy emphasized the need for UPS to assign someone to manage the relationship full time. Today, a UPS employee works side by side in the corporate office with Best Buy’s logistics staff to run what Bourne calls the “what-if department.”

“We would come up with a need and we would ask this person, ‘Is there any way UPS could contribute to a solution?’” he explains.

One initiative that came out of that collaboration allows Best Buy’s field technicians to take advantage of the UPS Store network of shipping centers. When the technicians, who handle in-home repairs, have to ship a defective product back to Best Buy, they simply visit a UPS Store and drop off the item. “It’s like having 5,000 mini distribution and receiving centers,” Morley says.

The parcel giant also helps ensure that Best Buy meets its commitments for photo processing. When a customer brings in a camera disk to a Best Buy store in the United States, it’s sent out to a photo-processing lab in Canada on a one-day turnaround. To make that possible, UPS has set up an import team on the U.S. side of the border to handle custom clearance of the photos and delivery to the appropriate stores.

Finally, the arrangement has provided the retailer with a single database for tracing and tracking its parcel shipments as well as regular management reports on its parcel expenditures. “Our productivity has been enhanced because of information availability,” says Bourne.

**More Than The Money**

Although Best Buy’s logistics managers acknowledge that the retailer does benefit from the volume discounts it receives as a result of its sole-provider arrangement with UPS, they emphasize that the special relationship between shipper and carrier is about a lot more than just saving money.

The efficiency, consistency, convenience, and speed of shipping and deliveries have all improved in the three years the arrangement has been in place. The partnership also means that Best Buy now has greater visibility of both inbound and outbound parcel shipments.

That enhanced visibility, in turn, results in product availability that translates into customer loyalty and repeat business. “If you’re concerned about the customer experience, you’re concerned about being out of stock,” says Bourne.

“You have to have the right product at the right place at the right time in the right quantity at the right price.” The close working relationship Best Buy has forged with its one and only parcel carrier, he believes, is one reason the retailer has been so successful in achieving that objective in all of its stores.

**Best Buy At A Glance**



**Corporate headquarters:** Minneapolis

**Revenue:** \$24.5 billion in FY '04

**Business:**

Specialty retailer of home electronics, music, appliances, and entertainment systems; approximately 750 stores in the United States and Canada.

**Distribution Facts:**

Operates eight distribution centers in the United States, located in California, Oklahoma, Minnesota, Indiana, Ohio, New York, Virginia, and Georgia.

**Transportation Facts:**

Set up a sole provider program for parcel shipments with UPS in 2001. Now makes approximately 320,000 parcel shipments annually. Majority of transportation budget goes for truckload shipments via dedicated contract carriage between DCs and stores. Also uses some LTL.

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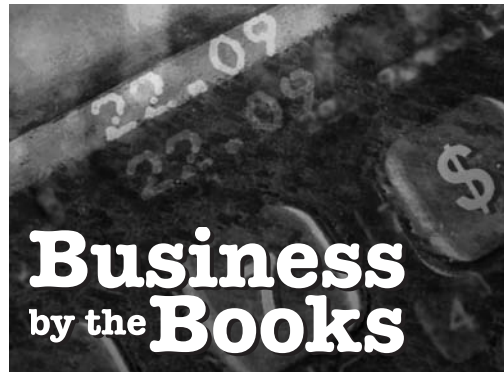
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## Key Industry Issues addressed at Fall Conference

**What are significant opportunities** for growth and challenges facing the LTL, small package and parcel markets today? In mid-September, nearly 100 logistics professionals, suppliers, and academics met at the 2004 NASSTRAC Fall Conference at Georgia Tech Conference Center to discuss these very issues. Topics ranged from capacity issues during a discussion with carrier executives and led by Roger Nober, Chairman of the U.S. Surface Transportation Board,



to the relationships between 3PLs and carriers. Dr. Barry Asmus, Senior Economist for the National Center for Policy Analysis, was the keynote speaker. Highlights about the current state of the industry were covered during a Wall Street town hall meeting that included to Thom Albrecht, Managing Director for BB&T Capital Markets; John Barnes, Director for Credit Suisse First Boston; James Staley, President and CEO of the Roadway Group; and Theresa Finlay, Vice President of Investor Relations for UPS.

"The LTL industry remains under pressure," said Albrecht. Key indicators include:

- Approximately 12-18 percent of all truckload shipments are under 10,000 lbs. This is double that in the years 1996 and 1997.
- Up to 10 percent of non-union LTL line-haul miles are provided by truckload carriers.
- With 4.6 percent growth since 1980, the LTL sector has shrunk (this figure is inflation-adjusted).

Albrecht suggested a significant pressure facing the industry this next year will be low long-haul tonnage growth rates (2 to 4 percent and 5 to 8 percent for regional/inter-regional in 2005), which is roughly half the 2004 growth rates. Panelists discussed other key pressures, that include rising interest rates, driver salaries are likely to increase more than three percent each year through 2006, high steel prices are raising equipment prices, and new engines have experienced up to eight percent fuel degradation for many.

Albrecht made several predictions for the industry, including the following:

- There will be another round of LTL consolidations in 2006-07;
- LTL CapEx Budgets in 2005 are likely to rise 20 to 35 percent;
- There will continue to be relentless cost pressures related to engines, material costs, and driver pay;
- The hours of service rewrite will take an additional 3 to 5 percent of truckload capacity.

During the conference, there also were a number of Shipper Roundtable Dialogues, an informal session during which logistics professionals had the opportunity to discuss issues of specific interest to them. Highpoints of several of these dialogues are as follows:

**On Security and the Supply Chain...**Participants in this group agreed that shippers, carriers and government must all work together on security and safety issues through laws or regulation that work. However, the dominant question posed was: Who will pay for more improved carrier security? One option discussed was to apply a security surcharge. Another concern was that not all modes have been looked at equally.

**On Leveraging Technology...**Participants in this group identified two key areas of opportunity to be electronic communication and documentation elimination. Electronic track and trace is also an opportunity; however, the issue of how problems are identified and communicated to the customer is of major concern. Also, there seems to be a lot of talk in the industry about RFID, but there are mixed messages in the marketplace about what is really happening and being asked from the suppliers of Walmart and the U.S. Department of Defense.

**On Steps to Successful Outsourcing...**Participants shared their experiences in "turning to the outside," and suggested that a key is to clearly determine your desired service goals and outcome. This is critical, as there are many 3PLs out there that offer many difference services and capabilities, and having a clear idea of your needs helps identify and select the right partner or partners. It was also suggested to carefully do your due diligence and to ask for references before making a final decision. When determining your outsource strategy, you also need to closely evaluate and determine what in-house expertise you will need. Lastly, make sure to identify in advance your expected ROI, and regularly monitor and measure the progress of the outsourced relationship.

To download presentations made at the 2004 NASSTRAC Fall Conference, visit the Members Only section of [www.NASSTRAC.org](http://www.NASSTRAC.org).