

Industry Insights

So Where Are Transportation Rates Headed Anyway?

Shippers who use LTL trucking service caught a break in September as average prices reported by long-distance carriers fell 0.7% from August. But that was only a temporary respite from an overall inflation trajectory that shows every sign of a steady upward path.

In the final quarter of 2005, prices were up 6.8%. For the final quarter of 2006, experts forecast that LTL tags will be up 7.5% from the same period last year. Looking further ahead, in the final quarter of 2007, some foresee prices increasing at a 6.6% rate. Inflation rates for truckload service, however, will look more stable. Truckload prices will be up 3.7% in the last three months of 2006 compared to a year ago, and up again 3.3% in 2007.

See page 2 on FedEx rate increases. For related articles, visit www.NASSTRAC.org.



From Washington

Democratic Control: What It Means For Transportation

Due to the recent elections, Democrats took control of the U.S. House of Representatives. On the key House Transportation and Infrastructure Committee, the Chairmanship will pass from Rep. Don Young (R-AK) to Rep. Jim Oberstar (D-MN). This is likely to make progress harder on the truck size and weight issue despite the recent announcement that BNSF may drop opposition to longer/heavier trucks. Oberstar has opposed relaxation of the federal freeze.

Democratic control of the Senate probably means that Sen. Daniel Inouye (D-HI) will replace Senator Ted Stevens (R-AK) as Chairman of the Senate Commerce Committee. The shift to Democratic control may mean more emphasis on transportation security. NASSTRAC will continue to oppose excessive regulation, including calls for screening of 100% of containers and other cargo shipments.

Big Lots Gets Its Transportation Act Together

NASSTRAC's Shipper of the Year benefits big time from improved process management, communications, and performance measurement.

When Big Lots hired Katy Keane as Vice President of Transportation services two years ago, the nation's largest closeout retailer was implementing a new transportation management system (TMS) and trying to improve its transportation operations. Keane quickly recognized that the transportation and distribution department could benefit from more coordination. "One of the biggest things I found at first was that our inbound and outbound teams operated separately," she says. "We were in different buildings. Carriers were calling on them separately. They measured carriers differently."

Under Keane's direction, Big Lots integrated its inbound and outbound transportation teams, putting them under one manager and one roof. The collaboration and cross-training made possible by that move helped Big Lots do more with less: The domestic transportation team was reduced in size, yet the staff continued to improve performance. "We needed to improve productivity, build better carrier relationships, and work toward lowering costs in a more synchronized transportation effort," says Keane.

Over the past two years, that's just what Big Lots has done. Thanks to programs that Keane and her colleagues have put in place, Big Lots has reorganized internally to facilitate change, improved on-time delivery to its DCs, implemented a cross-docking program, improved collaboration with carriers, introduced uniform performance-measurement systems, and transformed its transportation team into a service-oriented organization.

Those results have earned Big Lots the 2006 NASSTRAC Shipper of the Year award, co-sponsored by Logistics Management magazine. This recognition for outstanding achievement in transportation is presented annually to a member of NASSTRAC, an organization that provides education, advocacy, and networking for professionals in all modes and market segments of transportation. Here's a look at Big Lots' award-winning ideas.

Back to Square One

Keane began making improvements at Big Lots in 2004 when she was on a consulting assignment for the retailer. At that time, she primarily worked with the company's merchandising team to improve the timeliness of purchase orders.

The consulting job proved to be fortuitous for both Keane and her client: Big Lots liked her work and offered her a position overseeing domestic transportation. Having already been in the trenches, she knew where the company needed help. "When I was offered the job, I had the great fortune of seeing things from the ground floor," she says. "I was able to make changes fast, and Hal Wilson, the senior vice president of transportation and distribution, was very supportive."

The Fortune 500 retailer, with annual revenues of about \$4.5 billion, operates five regional distribution centers, two furniture DCs, and one wholesale DC to support 1,400 stores. When Keane arrived, some vendors were shipping orders to those facilities in an untimely manner. "Many of them were just shipping whenever they wanted," she recalls. At the same time, Big Lots was receiving insufficient information about inbound-shipment status from its vendors.

(continued on page 2)



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NASSTRAC Shipper of the Year
Big Lots gets its transportation act together
Page 30

Bohman's tips on cutting LTL costs 37
China's river of opportunity 43

Katy Keane
Vice President, Transportation Services
Big Lots Stores Inc.

FedEx News and Motor Carrier Rates

FedEx has announced a 5.5% increase in their rate structure for 2007. Along with this increase they announced that they will be reducing their fuel surcharge by 2%. Additionally, like UPS, FedEx has announced that they will be adopting a Dimensional Freight policy for oversize shipments. If the dimensional weight is greater than the actual weight, the weight calculated under the dimensional rule will apply to FedEx Ground shipments that are three cubic feet (5,184 cubic inches) or greater. We suspect it will simply be a matter of time before DHL adopts a similar policy.

A couple of quick thoughts. Now that FedEx has announced its 2007 rate increase, we expect UPS and DHL to follow suit shortly. Second, since UPS announced its change for oversize shipments, we have been asking shippers a simple question: What percentage of your shipments are oversize? Candidly, we're surprised that so few shippers know the answer to this question. I guess they'll find out the answer when their parcel budgets get blown out of the water. We think it makes sense to get the answer to this question right now.

Motor Carrier Rates

A couple of weeks ago I was interviewed for an article about motor carrier rates that appeared in Transport Topics magazine. I said, "...based on what we're seeing, the softness in the motor carrier marketplace is greater than is being reported and this is being reflected in lower rates." As you might expect, I heard from several people and they were basically asking me what planet I was from. In their world, they are looking at rate increases for 2007, and they're wondering how I could possibly say that rates are going down.

If you count yourself in this camp, let me share a couple of vignettes. On a recent conference call, one large shipper told me that last year their rate for flatbed moves was \$1.50 per mile in an important lane and they had a hard time finding capacity at that rate. Today they are paying \$1.25 per mile and having no trouble finding equipment.

That's a 16% reduction! Another truckload shipper in Colorado has reduced their costs and improved their allocation of equipment through an advanced tender system, which helps the carriers understand their equipment requirements. A large volume LTL shipper called and asked for our input on some renegotiation strategies. They have significant volume with one of the large LTL carriers and were hoping to keep their rates flat. We gave them some tips and now it looks like they will pay lower rates because the carrier wants that freight.

Now a couple of the major logistics and transportation magazines have come out with articles about a soft transportation market and this supports our thesis: Many companies are passing up an opportunity to hold the line on their costs, or in some instances lower their costs for truckload and LTL shipments. Having said that, let me give you a quick tip on what not to do if you want to lower your rates or have a smaller increase. Do not—I repeat—do not pick up the phone, call your carrier rep, and tell them that Mike Regan told you they should lower their rates.

What should you do? The same thing we are doing on behalf of our Freedom Logistic clients. We're having a dialogue with the carriers about the freight that is being moved and asking them where it does and doesn't make sense for them to be involved. We're asking the carriers for their insights on what can be done to help lower costs for carriers and shippers. Then (and this is the most important step), we listen. It takes time but we glean valuable insights from this dialogue. This is the value of collaboration.

We believe very strongly that it is important for carriers to earn a fair profit. In order to do that they have to have freight that is reasonably priced. Based on experience, we can assertively state that this does not necessarily mean higher rates. It does mean that they have to have good freight moving in the right lanes. When this occurs, shippers can benefit by reducing their costs.



“We’re asking the carriers for their insights on what can be done to help lower costs...”

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(Big Lots ... continued from page 1)

In an effort to resolve those issues, Big Lots implemented a TMS in June of 2004. Although the system provided useful tools for managing inbound transportation, it soon bogged down with too much data that had little to do with moving freight from Point A to Point B.

“There were 26 interfaces,” Keane explains. “We tried to make the system a corporate reporting system rather than a TMS. There was extraneous data in the system that we couldn't keep current.” That situation contributed to Big Lots' difficulties in receiving inbound shipments on time and tracking shipments. So Keane went back to square one. One of her priorities was aligning everyone in transportation and information technology with the same set of goals. She became a liaison between the transportation department and IT. She also immersed the technical staff in the ways of transportation and explained Big Lots' business processes so they could understand how technology was supposed to support the big picture.

Collaboration Pays Off

While IT changes were in the works, the reorganized transportation team turned its attention to improving the way Big Lots worked with its carriers. In the fall of 2005 it held a carrier conference. Out of this two-day event evolved two lists: “Top 10 Things Big Lots Can Do For Carriers” and “Top 10 Things Carriers Can Do For Big Lots.” Based on these shared lists, the shipper and its core carriers prioritized ideas; these became Big Lots' goals for improvement. Among those goals were better shipper-carrier communication, on-time invoice payment, and providing the carriers with shipment-volume forecasts. This last goal was something Big Lots could achieve quickly. To help the carriers plan their operations, the transportation team immediately began providing them with lane-by-lane forecasts.

Big Lots also increased its drop deliveries, a change that helps its outbound carriers improve equipment utilization and decrease drivers' waiting time. The shipper also supports its outbound carriers by giving them some priority during the tender process for inbound traffic to encourage continuous moves. These round trips help them reposition trucks and avoid costly empty miles.

The retailer worked with its dedicated outbound carriers, Penske Logistics and Hogan Dedicated Services, to create a more “driver-friendly” atmosphere. The transportation team issued ID badges to truck drivers to help them identify themselves to the retail stores' receiving-dock personnel. They also made arrangements with the stores for drivers to wait inside the staff break rooms rather than in their trucks.

Keane believes that collaboration is a necessary response to current business conditions. With rising fuel costs, natural disasters, bankruptcies, and driver shortages challenging transportation managers, capacity shortfalls are all but assured on some lanes during peak season. “It was a shipper's world before,” Keane says. “The one thing we've had to do is be very collaborative with our carriers.”

Big Lots' transportation partners appreciate the changes Keane and her colleagues have made. Joe Carlier, Penske Logistics' Vice President of Operations, says that Keane and Big Lots go out of their way to ensure that both shipper and carrier benefit from their relationship. "She has elevated that to the next step," Carlier says. "She's identified true partners and is developing relations and collaborating where it's a win-win-win for everybody."

But that doesn't mean Keane is willing to let the carriers call the shots. A new vendor-compliance department enforces what she calls a "robust" inbound-routing guide—no more shipping at the carriers' discretion. Such discipline is good for all concerned, Keane believes: "All shippers want great service at affordable rates. We're not doing this out of the goodness of our hearts. We think it's a win-win for the carriers and for us."

Cutting Costs Inside and Out

Like many shippers, Big Lots has achieved significant cost savings through outsourcing. One way the shipper saved big was by outsourcing its entire LTL program to Unyson Logistics, a 3PL. With Unyson, Big Lots now coordinates its LTL business through a single provider that directs a network of eight underlying, regional LTL carriers. The 3PL has helped the shipper to reduce its overall LTL costs by optimizing routing, combining some shipments, and identifying opportunities for pool distribution. All of this is seamless and transparent for Big Lots, Keane says, because the company interacts with just one LTL "carrier."

Early in 2006, Big Lots outsourced its freight-settlement processes, a function that had been managed in-house under a reporting system that Keane believed was "cumbersome at best." Outsourcing freight payment and auditing resulted in a number of efficiencies. Big Lots also now gets by-shipment accrual information, which has helped it to improve the accuracy of its reports on freight spending and identify opportunities for improvement.

But outsourcing isn't the only way Big Lots has come to enjoy transportation savings. The shipper has increased its use of rail transportation, and Keane currently directs about 15,000 inbound intermodal shipments annually. The keys to making intermodal both a cost-effective and efficient option, she says, are a thorough understanding of transit times and providing Big Lots' rail partners with opportunities to balance equipment on east-west routes.

The transportation team even looked at Big Lots' own practices to help them get control of ever-higher transportation costs. For instance, improving the efficiency of inbound deliveries helped the shipper reduce its per-diem costs, such as trailer-detention and demurrage charges, by some 90 percent. And a new cross-docking program between the company's furniture distribution centers and its closeout DCs has led to significant savings because stores receive just one delivery now instead of two.

The resulting savings have been somewhat offset by record-high fuel costs. "It's tough for us to save," Keane says. "I

can't do anything about the cost of fuel, but we are able to mitigate the cost through initiatives we have taken." Despite that challenge, the transportation and IT groups' initiatives have had a positive impact on business overall, not just on transportation, she adds.

Innovation Breeds Success

One of the reasons Keane has been effective as an agent of change at Big Lots is her systematic examination of the company's internal performance. Only after it changed its own measurements and processes, she says, could Big Lots ask its carrier and 3PL partners to make similar improvements.

Keane developed daily and weekly "scorecards" that measure its own and its partners' performance. The transportation team now relies heavily on daily departmental scorecards, which quantify productivity and identify where improvements in transaction processing are needed. A weekly transportation scorecard includes such measures as on-time delivery and pick-up and metrics for truck drivers, among others.

The shipper shares those results with its carriers and third-party logistics providers. The reason for doing so, says

Keane, is to allow them to see how well they are meeting Big Lots' expectations and to identify areas where additional improvements are required.

This kind of information-sharing is a two-way street; Big Lots uses the data it receives from its service providers to improve its own performance. "We get shipment-status updates from all of our carriers, and we can react in real time. We didn't have the flexibility and capability to do that before," Keane notes.

There's no secret to Big Lots' success. A willingness to innovate and seek improvements in areas where others may not have tried is one aspect, Keane says. The other is a strategy that hinges on three critical elements. "My mantra is aligning people, process, and technology. That's how you have to tackle it—and in that order," she says. "If you don't have the right people and the right process, you can forget technology."

Note: This article was recently published in Logistics Management magazine, and was written by Contributing Editor John Schulz, who is a veteran transportation and logistics journalist and industry consultant. He has covered many NASSTRAC events in the past. ●

At A Glance: Big Lots



Corporate Headquarters

Columbus, Ohio

Company Founded:

1967

Business:

Retailer of brand-name closeouts and bargain merchandise at prices below those of traditional discount stores

Annual Revenue:

\$4.5 billion

Number of Retail Stores:

1,400 nationwide

Distribution Facilities:

Five regional DCs, two furniture DCs, and one wholesale DC (located in Ohio, Pennsylvania, Alabama, California, and Oklahoma)



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NABOL: What's It All About?



By John Cutler
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In May 2006, the National Classification Committee (NCC) of the U.S. National Motor Freight Traffic Association, publisher of the National Motor Freight Classification, adopted a measure of considerable interest to shippers and carriers operating across the northern and southern borders of the U.S. Effective July 22, the NMFC includes a bill of lading for cross-border shipments which will be called the North American Uniform Through Bill of Lading, or NABOL.

The NABOL was developed over years of negotiations among representatives of motor carriers and of shippers. Because it is the product of compromise, it contains features that may raise shipper concerns. Most controversy concerns cargo loss and damage, and the attempt by the NABOL drafters to address the different liability levels under the laws of the U.S., Canada and Mexico. The NABOL provides that, absent a separate written agreement to the contrary, the controlling liability regime will be that of the "first country in which the first Performing Carrier takes physical possession of all or any part of the Goods." As a result, if part or all of a shipment comes into the first carrier's possession in:

- **The United States.** Carrier cargo liability will be based on actual value unless otherwise agreed in writing, subject to the proviso that carrier limitations of liability in classifications, tariffs or contracts may also apply.
- **Canada.** The standard liability is based on "4.41 CDN \$ per kilogram computed on the Total Weight of the Goods, Pallets/Dunnage"
- **Mexico.** The standard limit is "the equivalent of fifteen (15) times the minimum daily wage then in effect in the Federal District of Mexico, per metric ton or the proportional part thereof." *

The Rationale. The argument for this arrangement is that universal application of the most generous liability regime would unduly favor shippers, while universal application of the least generous regime would unduly favor carriers, and that making the controlling regime depend on where goods are first shipped is objective. However, if a U.S. shipper's freight is predominantly inbound from Canada or Mexico, there may be adverse impacts from use of the NABOL.

Even shippers whose freight is predominantly outbound to Canada or Mexico need to be careful about limitations of carrier liability in classifications and tariffs. The NABOL was designed to put shippers on notice of these limitations; however, it could also complicate attempts by shippers to recover claims. The NABOL has now been made a part of



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the NMFC in order to increase awareness and utilization. Notably, the NABOL explicitly provides that it is the contract of carriage between the parties, unless the parties agree otherwise. Certain NMFC items now require use of the Uniform Straight Bill of Lading or the NABOL for shipments transported subject to the NMFC. Many shippers pay too little attention to bills of lading, even though courts may treat them as contracts of carriage.

NASSTRAC objected to aspects of the NABOL dealing with cargo liability limitations, both on substantive grounds and because of the belief that these issues should not be decided by carriers acting collectively with antitrust immunity. The Carmack Amendment provides "No discussion, consideration or approval as to rules to limit liability under this subsection may be undertaken" by carriers acting collectively under the Interstate Commerce Act. The NASSTRAC objections were rejected by the NCC. The NABOL also specifies notice deadlines of which shippers should be aware. For example, notice of visible damage is to be provided within one working day after delivery, and notice of delay is to be given one working day after the date scheduled for delivery. In addition, notice of concealed damage is due within one working day after expiration of a 15-day period following delivery.

Also, the fine print in the NABOL is not identical to that in the Uniform Straight Bill of Lading that also appears in the NMFC. Some additional terms are needed to address cross-border issues, but there is also important language affecting aspects of the shipper-carrier relationship not related to international shipments. All shippers should therefore familiarize themselves with the NABOL, which has many more features to it. Shippers who would like different liability provisions should protect themselves through appropriate contracts with motor carriers and brokers.

NASSTRAC is looking for your help to make sure shippers' present and future interests and concerns are well known and communicated. As our membership grows, the impact we have on legislation and other transportation issues in the future grows as well. If you are looking for more information on the NABOL or other transportation issues, contact NASSTRAC Member Services at 952/442-8850, ext. 208.

* Important note: This arrangement appears to be controlling for the shipment as a whole even if most of the goods in a shipment are added later in another country, and even if most of the distance traveled is in another country or if the loss or damage plainly takes place in another country. ●