

Early Customers Panel

Edward M. Emmett, Moderator

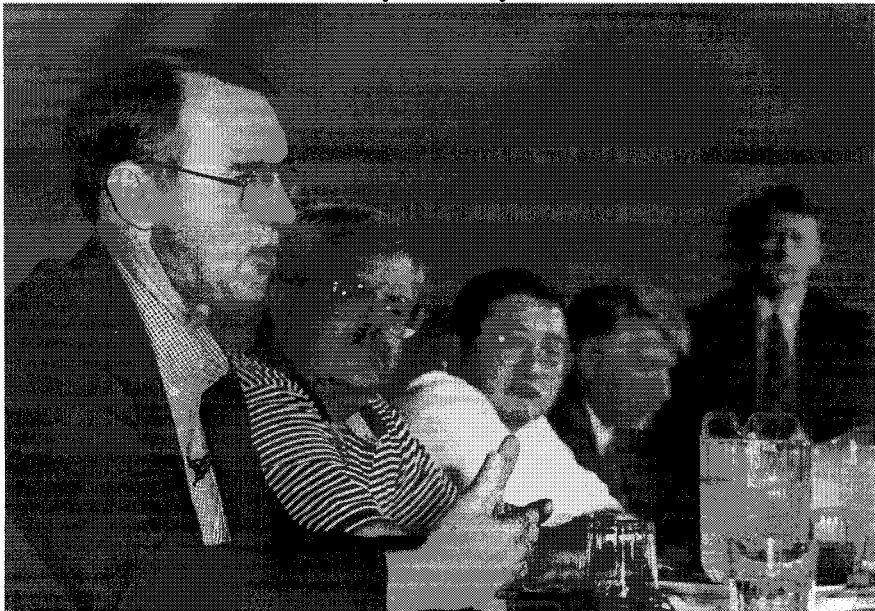


There are two absolutes in freight transportation. One absolute is that modes of transportation exist for the customers. Policymakers do not always understand that, and the modes do not always understand that, but without the customers, modes cannot exist. The second absolute is that the business of freight transportation is one of constant change, and change produces winners and losers. This is a panel of winners, people and companies who have gone through dramatic change, come out on top, and helped the entire intermodal industry work better.

*ITI Board of Directors
President and COO
National Industrial Transportation League*

PANELISTS

**Marty Tendler, J. Paul Seehaver,
Kenneth R. Wykle, Andy Hok Fan Sze**



(Left to right) Kenneth Wykle, Marty Tendler, Andy Hok Fan Sze, Paul Seehaver, and Ed Emmett.

Marty Tendler

Vice President and Director of Transportation
Ralston Purina Company

Ralston Purina got involved with intermodal in the early 1970s. We would normally put packing supplies in an intermodal shipment because the service was really bad and the damage was really high. We were the largest domestic agricultural provider of animal feed and pet foods. We could not afford, at that time, to put finished goods on intermodal because trailers would be sent to hump yards where the product would be damaged and the service was poor. Why did we use it? Well, the price was cheap, and we had a big inventory of packing supplies at that time.

Ralston shipped primarily by boxcar. The railroads were adamant about boxcars. We loved boxcars too, not for service, but for cost. Our on-time performance ranged from two-days late to three-days early. That was the standard that we lived by.

Shift to Trucks

In the late 1970s Ralston began converting from railroads to trucks. We were using J.B. Hunt quite extensively. We were in total shock because the service, all of a sudden, got so good. We were used to seven- and eight-day transit times, and with trucks, customers could get it tomorrow. It was phenomenal. By the early 1980s, we had converted from 97 percent rail to 97 percent truck, and the service was incredible. Our customers were excited, and they soon began to ask for shipments within two hours, then within one hour. Today, we are within fifteen minutes of the delivery schedule appointment. So service is paramount for our business.

Also in the early 1980s, we saw the start up of the third parties. Hub, Alliance, R.C. Matney, and National Piggyback came on the scene, and they were making life a little easier for a lot of the shippers, if only because the paperwork was less. By comparison, we used to get a rail bill and two drayage bills per shipment. It was costing a lot of money just to handle all of the bills. So not only did rail provide poor service, rail also cost us more administratively.

Shift to Rail

After the Staggers Act of 1980, railroad labor went from 500,000 workers to about 225,000 by the end of the decade. This took costs out of the system, and railroads went from "engineer beware" to the very efficient rail system that we have today. The key to the whole intermodal change was management commitment. I just cannot say enough about

the management commitment in operations. It changed everything. People, such as Mike Haverty who was at Santa Fe Railroad at the time, were committed to making intermodal work. That is what sold me on intermodal. When the senior management came in and committed to provide service, Ralston started putting more and more freight on the intermodal network.

There were visionaries out there. They brought us the stacktrain and the RoadRailer. The efficiencies were great, but service brought it home. Service was critical. When you are a shipper, and you have to have product to a customer within a 15-minute window, you cannot afford a poor service record. In fact, the Quality Service Network (QSN), run by the Santa Fe, and the Expediter, run by the Burlington Northern, ran 500 to 700 miles. The service reliability was incredible—99 to 100 percent. It was beating trucks, not equaling them.

The cost structure was very attractive. In fact, the railroads priced their products below the motor carriers. The network that was built by these two railroads, the Santa Fe and the Burlington Northern, was close to incredible. We ended up putting 100 percent of our freight on their lines because of the reliability of the service.

In the late 1980s, I put Mike Haverty together with Paul Bergeant, who is now J.B. Hunt's executive vice president of marketing. "Transportation 101" would suggest that the long-haul service belonged to the railroad and the short-haul, regional service belonged to the motor carriers. I committed, at that time, that if rail and truck could ever put a program together, that Ralston would love to be the Beta site to have this program take off. It was really rewarding for me to see the two different modes working together.

The other technology was the RoadRailer. Norfolk Southern grabbed it. At that time, we had a cereal facility up in Michigan, and we were pushing the railroads to test it because we were convinced that the technology was right and that the service was there.

Future of Intermodal

Where are we today? Intermodal in the 1990s has long-haul stacktrains and, although limited, the RoadRailer. We have not really seen new innovation, probably because of mergers. The railroads have become internally focused rather than customer focused. Companies become innovative when they listen to their customers.

What is needed in the future is management commitment. We have to start integrating the processes for all of us to survive. It is so frustrating to see trade associations spending their monies beating each other up. The future requires shippers, railroads, truckers, and ocean carriers to lay

down the guns, get in a room, and talk about efficiencies because the economy is growing. As a group, we need to start working together, and I am confident we can meet the challenges that are going to face us in the new millennium.

J. Paul Seehaver

Executive Director, Logistics Programs
US Postal Service

My first introduction to intermodalism came when I was about nine or ten years old. My dad would, occasionally, on Saturday go out and survey the railroad he had responsibility for, and I would join him on those trips. On one of these trips, we stopped by a new yard facility, where he showed trailers being loaded on flatcars. He called it “the road to the future.” He was confident that railroads would take business from the highways and put it on flatcars. Since I was nine or ten years old, I did not pay a lot of attention.

I have been asked to discuss intermodalism and the US Postal Service, not the railroads. Specifically, I was asked to address about four different things. First, what led me to believe that my intermodal ideas had promise. Second, what obstacles have I overcome and were they anticipated. Third, how have my expectations changed over time. And, finally, and fittingly, what lessons should the industry learn from the past. To answer these questions, I need to first identify my vision of the future for intermodalism and the US Postal Service.

An Intermodal Vision

In the mid- to late-1970s, the Postal Service predominantly used long-haul trucking as the choice of transportation to move its mail from coast to coast and between the coasts. Although we had a railroad Post Office, which had a fine tradition since 1864, its last run was in 1977. At about this same time, we had begun moving, as many other shippers had, into intermodal business as an alternative to highway, and a poor alternative at that. Fundamentally, my vision was that the service we enjoyed from the highway providers could easily be matched or beaten, and at lower cost, by the railroad providers. I knew that to be the case because my dad told me it was true when I was nine or ten years old. This is my vision—that we could engage the rail carriers to provide intermodal service that met or exceeded the service that we enjoyed on highway, and that the rail carriers could provide the service at lower cost, and that the rail carriers could provide the service with the consumption of less fuel, something good for the nation.

The problem that first got me deeply involved with intermodal activities occurred in July 1977, when we discovered some Christmas mail from the prior year in three trailers located in a rail yard on the East Coast. The mail was a little old, having sat there for about six months. I headed a task force to discover what caused this problem. We calculated that if we could find the cause, then we could find the solution. It was rather straightforward. The reason that the trailers sat there was because we did not know they were coming. The process that we had at the time was that we would tender a trailer to a rail carrier in Chicago and expect delivery some several days later in New York. If the trailer got there, there was no problem. If the trailer did not get there, we did not know it. We had no tracking system. Clearly what we needed to do was put in place a tracking system that would identify where trailers failed to make the mark, and we could do some investigation and find those trailers.

Over that summer we developed a manual van-control system, in which we faxed information back and forth between terminals saying: "We have dispatched the trailer. It should arrive on such-and-such a day. Be on the lookout for it." It had a check-and-balance system, and we used that system for about three years. I claimed success with that system because we did not discover any lost trailers. I am not sure whether the system did that or dumb luck did it, but my team and I took credit for the success.

A Rail Management System

Part of what this early stage did was to provide a method or process by which we could better track our trailers. And we reasoned that if we could track these trailers electronically, if we could do a computerized system, then we would have some empirical data on trailers—which ones departed, which ones arrived, which ones did not, and which ones we needed to do something about. From that, it also became evident that we needed to know the transit time from origin to destination. Frankly, I was surprised to learn that the contract we held at that time did not require the rail carriers to provide us with any velocity of service. The requirement was that if we tender a trailer two hours before train departure time, the trailer has to be on the train. At the destination, two hours after the train arrived, the trailer had to be tendered back to us. But how long it took in between was not contracted for.

It became clear that if we had an electronic scorecard, if we knew what time we delivered a trailer, what time it returned, and what the transit time was, then we could improve the performance of the rail carriers. Instead of sometimes taking four, six, or eight days to arrive at a destination, we could hold the railroads accountable for fulfilling a spe-

cific requirement. So we developed a system, we put it in place, and I am very proud to say that it is still in place and operating today. This system provided empirical data on departures, arrivals, and overall performance.

The next trick was to change the contracts so that we would be able to hold the railroads accountable. After all, we still had not asked them to set up a special velocity. So we looked at a matrix of our world, and our world, at that time, boiled down to about twenty-one, origin-destination, city pairs, where we processed bulk mail or parcel mail. We identified the network. Then, we realized that the railroads did not have ramp yards at all of the cities and that it was really a smaller matrix.

We narrowed it down to the cities where the railroads had ramp yards coinciding with our city pairs. We came to the conclusion that if we had about forty or fifty origin-destination pairs to monitor and manage with this rail management system, and if we put out specific requirements, then we could improve the service in these corridors, which would improve the service that we enjoyed overall. We also felt that we could drive down our costs at the same time. So, we put the solicitation on the street. Not surprisingly, we received a wide range of offers, which was something new. We had not asked for this before. Nor had we been pressing rail carriers for performance. We got varied responses.

But, the good news is that a couple of the major carriers weighed in very well. Conrail, for example, showed up with a team from marketing, from pricing, and, very importantly, from operations. The operations representative knew the schedules of all the manifest freight trains. He knew how fast they could operate, and he knew what had to be done for Trail-Van trains in order to get across the railroad. In a very healthy discussion, the team identified where it could make service, identified where an extra day was needed, or an extra several hours, or whether, by adjusting the time we tendered trailers, it could make a better service package. Conrail made us a very fine offer, and we awarded Conrail a very large contract.

The Santa Fe weighed in on the other side for the western carriers. The Santa Fe, too, brought in representatives from marketing, from pricing, and from operations, a representative who also knew his railroad like the back of his hand. The Santa Fe prepared a very similar package for traffic moving west of the Mississippi River. A couple of the other carriers did not come in as well prepared and, frankly, some of them just did not get it. But, the good news is that working with Conrail and Santa Fe, we put together a great package and we dramatically improved performance for the US Postal Service. By driving them a little and by working with them as partners, we also improved the service and the velocity on some of the schedules for the general freight haulers who rode the same trains. We are very pleased with that outcome.

Over time, we developed some additional enhancements. We discovered that we really did not need to have an interchange point—a rail yard where the railroads put the trailers on a flatcar. Rather, we could extend the reach if we used intermodal service. So we put out an offering. We really did not care where the railroad ramped or de-ramped the trailer. That was railroad business. What we cared about was getting the trailer back at a specific destination at a specific time. How the railroad got from Greensboro to Seattle, for example, was its business. From that we expanded our reach, and we developed a truly intermodal network that did not encompass just 40 origin-destination pairs but 200.

This was great service, but we were still breaking the service at the Mississippi River. We could run as far as Chicago, interchange at Chicago where Conrail would de-ramp the trailer, and run it over the highway. The Santa Fe would pick the trailer up, load it, and then run its train out of town. We would lose 24 hours in Chicago. Then, some of our expectations changed.

At the beginning we thought that we would be the leaders in change and that we would be the ones who had to come up with the preponderance of the ideas. In fact, that really did not take place. Instead, Conrail and the Santa Fe came to us and suggested that if we would solicit for service from New York to Los Angeles, and from New York to San Francisco, they would be able to put together a package for us that would reduce the running time considerably. They proposed to develop a run-through train at Chicago, so that Conrail would bring the train into Chicago, cut off the power, bring on Santa Fe power, put a new crew on, and steam out of town four hours later, rather than twenty-four hours later. They established seventy-six hour coast-to-coast service for us. This was a tremendous improvement. We awarded a contract that ran virtually 100 percent on time.

Some of the other innovations resulted from the partnership arrangement with our rail carriers. The railroads wondered why they should put additional work effort, additional engines on trains, in order to deliver the trailers early when they got paid the same price as getting there on-time. As a result, we developed a bonus program. If the railroad delivered the trailers early, we gave them a bonus because there was value added for us. The corollary was that, if the trailers arrived late, we exacted a penalty. So we implemented a bonus/penalty system, and this tension and the visibility helped the railroads keep their eye on the ball. They recognized every week, when they received their compensation, the amount of money that was taken away because they ran trains late or because they delivered the trailers late. The report also indicated the bonus and the potential to eliminate the penalty and gain an even larger bonus.

This tension helped a great deal, and it also helped the Postal Service with its operations. Our operating people really did not like the railroads. After all, if the railroads were required to deliver the trailers at six o'clock in the morning, they showed up at six o'clock in the morning. Whereas if the truckers were there, and they had to get there at six, they often would run early because there was an incentive—they got to go home early. This bonus-penalty tension also set up a process that gave our operating managers more time to process the mail, giving additional credibility to our people.

The Obstacles

What obstacles did we find as we went through this process? The years of poor service in the railroads certainly was one of the obstacles, but this was overcome because of the attention paid by several of the leading carriers. This really was not a surprise obstacle, but it was there. Another obstacle was the fuel crisis during the 1980s. As a quasi-federal agency, we were mandated to reduce significantly the amount of fuel that we consumed. By converting from highway to rail, we were able to take a seven-to-one ratio reduction in the amount of fuel that we consumed. That was great news for us. Because we implemented the rail management system to measure performance and because of the changes that we made as partners with the rail carriers, we were able to get off the highway, get on the railroads, drive down our costs, and drive down our fuel consumption. Great synergy took place.

The Expectations

How did my expectations change over time? They changed dramatically. The rail carriers, as true partners, presented suggestions to us—often more suggestions than we could deal with—on how to improve collectively the position of the railroad and improve the position of the Postal Service. And, at the same time, this synergy caused improvement for the industry—running faster trains, at higher velocity, and more frequently. The biggest shift was the shift from a supplier/customer base to a true partnership.

We also looked at changes in technology. RoadRailer is certainly one of new technologies. We had an offer to test RoadRailer service between St. Louis and Detroit. Norfolk Southern suggested that we test it to see if it could do as well or better than highway carriers. We tested it during Christmas. We took a little risk, and we ran a parallel test with highway service, which we knew was running at about 100 percent. Norfolk Southern met the expectations, beating the highway service by about an hour during the 30-day test period, except for three days. For those

three days we had a horrendous snowstorm in northern Indiana, southern Michigan, and Ohio that shut down the highways. But, it did not shut down the railroad, and it beat the highway contractors by a full day. From that, we expanded our use of RoadRailer service with Norfolk Southern everywhere it went.

We also expanded our use of RoadRailer service with Amtrak. In 1990, we announced at the International Intermodal Conference that we would invest seed money with Amtrak so that it could develop the capability of operating RoadRailer service on high-speed passenger trains for the exclusive use of the Postal Service. Over the succeeding several years, Amtrak developed high-speed RoadRailers that ran, and now run, in an expanding network in passenger service. We are looking to expand that network to compete, not with the truckers who are our partners and partners with the railroads, but with airplanes. We can run down the Eastern Rail Corridor faster than we can fly between New York and Washington DC. We are looking at the same expansion in other parts of the nation as well.

The Lessons Learned—Customer Service

Finally, what lessons should the intermodal industry take from the past and promulgate for the future? I would say learn the requirements and understand the needs and the desires of the customers. Live with your customers. Be part of them. Understand their business, and understand the politics of their business as well. Give the customers what they want and help them learn what they ought to ask for. Conform your business to the needs of your customers. Become more like partners than simply suppliers. Be proactive. Do not over-promise, and when you fail, admit it.

I guess the best example of integrity and how we ought to do business is when the Brotherhood of Locomotive Engineers took a strike and subsequent lock-out by the industry in the 1990s. All of the rail carriers that we had contracts with, except one, said that they simply would not honor the contracts during this work stoppage. The sole exception was Conrail. Conrail knew its customers and knew their politics. It knew how hard it was to win the business in the first place, and it was intent on keeping the business. The company recognized that it was in this for the long haul, not the short-term gain. Conrail announced that it would protect all of the contract service in spite of the strike. As an intermodal carrier, it did not need to use the steel wheels. It protected every one of the lanes. We rewarded Conrail by automatically renewing all its contracts during the next contract term. The long-term reward is that Con-

rail continued to be our carrier of choice, and it set a higher standard for the rest of the industry to follow.

Kenneth R. Wykle

Federal Highway Administrator
United States Department of Transportation

Although I am at the US Department of Transportation, I have been asked, for the purposes of this conference, to address the military and the military's perspective as a customer of the intermodal system. I certainly believe that the US Department of Defense was one of the true, early pioneers in intermodalism and in the use of containers. In the early 1950s, the military developed the Container Express (CONEX), a container that started to unitize material and small pieces of equipment. The CONEX was roughly 8 feet high, 8 feet wide, and 6 feet deep and was standardized with lifting points on the top for loading on breakbulk ships and runners on the bottom with slots for a forklift. The purpose was to consolidate small items into a larger box, recognizing the speed needed to load and discharge ships as well as to load and transport the items by surface transportation—highway as well as rail.

The CONEX offered ease of handling—3 to 4 lifts versus 16 lifts of pallets on a flatbed trailer truck. Perhaps as much as anything, the CONEX protected items from the elements and provided security. The CONEXs were managed by numbers, similar to the way the 20- and 40-foot boxes are today. They had a number stamped on them, and there was much more of a challenge to maintain inventory with no automation. Basically, the military asked organizations and carriers to do an annual inventory of CONEXs and to send them back. CONEXs were easily diverted and used for things other than transportation. They made great storage sheds, they made great frames for bunkers, and they had a lot of uses other than shipping.

Container Development in the 1960s

With the Vietnam War in the 1960s, CONEXs were in high demand for moving “troop accompany type” (TAT) supplies, particularly smaller items and materials. The security of this cargo was important as it transited the entire system, but there were not enough CONEXs to meet the demand. Of course, containerization, as we know it today, was starting to come along because of the work that Malcolm McLean had done at SeaLand. SeaLand actually started providing service to Vietnam. The military started taking advantage of the containers and the shipments to Vietnam as well as all the breakbulk ships that were going there.

During this period of time, the military also did a few small experiments with moving ammunition inside these containers. At the time, there were self-sustaining ships that brought these containers to Vietnam. They had their own on-board crane. The large, shore-side cranes that we have today were not necessary. The ships would discharge the containers onto chassis or onto the pier, and then the containers would be moved forward to storage areas, not too far inland. But some were actually moved to the fighting division base camps and to the brigade field bases, to move the ammunition as far forward in the combat zone as possible.

This was a new way of doing business and certainly caused some challenges, from the customer's standpoint. When the container arrived at the division or the brigade area, the military did not have the material handling equipment to set the container on the ground. Therefore, unloading was very difficult. There was no way to get past the first one or two rows of pallets in the container and the trailer was up off of the ground. Human ingenuity was used. Chains were put around the pallets, and they were dragged to the door, and then a forklift lifted them out, or cables were used to do the same thing. Or, in some cases, soldiers got in there and unloaded the large containers by hand.

But again, the advantages were in the speed of shipping the freight from the United States directly to the forward areas of the battle zone. This was really the first time this type of transportation had been available. It offered protection from the elements and security from pilfering, but it did cause some other problems. It was difficult to know what was inside the container. The manifest paper would get lost, the rain would fade the markings, or sometimes it was just listed as general cargo. Or, the cargo might be listed as ammunition, but what type of ammunition? As a result of these experiences, toward the end of the war the US Army started developing a containerized ammunition distribution system, using what we call a MilVan, a 20-foot box made out of heavier, corrugated metal. It had slots in the bottom like the old CONEX but larger forklifts were used to lift the box off of a flatbed truck or off of a chassis when it got to the forward areas and the combat zone, making it more accessible and easier to unload.

The US Army started procuring the larger forklifts to be able to lift this additional weight, and it contracted for extending boom-type forklifts that could reach back into the container and then low-mast forklifts that could drive all the way inside the container to take the pallets out. But safety issues became a concern in terms of which explosives could be stacked side-by-side. In the old way of shipping ammunition in breakbulk ships, there were bulkheads, and the rounds would go in one hold, the powder would go in another, and the fuses would go in another.

The container ship no longer had these bulkheads, and so a lot of work had to be done with the Coast Guard to resolve these safety issues.

Today, ammunition has to be shipped through the designated ammunition ports, primarily Sunny Point, North Carolina, or Concord, California. As the Army, the Air Force, and the other services started shipping more ammunition by containers, it was difficult to get a full shipload. What happened, often, was that breakbulk cargo would go in the hold of the vessel and then containers would be loaded topside, as the military continued to work with this form of delivering ammunition and improving efficiency. Commercial containers were also used to ship ammunition, and they are used today.

Intermodal Development in the 1970s

During this period the military started embracing containerization and intermodal transportation because of the significant advantages of speed in deploying units and shipping sustaining supplies. The military began moving by container as much of the smaller items that could be containerized or palletized. Certainly high-value items—post exchange, commissary goods, repair parts, packaged petroleum products, lube oil, greases—were all shipped by container. At the same time in 1970, while I was stationed in England, the military began experimenting with moving private automobiles in containers. When soldiers are deployed overseas, in the majority of locations, they are authorized to take their cars with them. The cars had been shipped in breakbulk ships, and to get them in the hold, a sling was used. Naturally, the probability of damage was great.

The challenge came with wheeled vehicles because everything, except the smallest jeep, was too large to go into a container. Nevertheless, the military was eager to take advantage of the increased productivity container ships provided, and a lot of tests were done. Flat racks, basically sideless containers, were used with just the four stanchions on each end. But they increased the number of lifts. Looking to increase capability and to speed up deployments, the military purchased SL7 ships from SeaLand. Even though these ships could go 33 knots, they were too expensive from a commercial standpoint. So the military bought them and converted them to roll-on/roll-off vessels or combination roll-on/roll-off container vessels. They are still in use today and proved to be very effective in Desert Shield/Desert Storm. Eight of them moved some 25 to 30 percent of the military cargo that was shipped.

The military continued to make refinements to the containerized ammunition distribution system, moving ammunition directly from the depots in the continental United States as far forward in the combat zone as

possible. But, the identification of the contents of the container continued to be a challenge. Unlike in the commercial world, where things are delivered to a street address, trying to deliver to remote areas by grid coordinates makes it very difficult to have a database that can be accessed to find out what is inside the containers.

Containerization in the 1980s

During Desert Shield/Desert Storm, some 35,000 containers were shipped, proving the advantages of containerization. The challenges of inventory identification and management—knowing what is inside of a container and then finding the container in a stack of 20,000 containers—still remained.

During this time, the military was also developing something called a palletized loading system. As the name implies, this is just a large pallet that is the same size as a 20-foot box, but completely sideless. We put pallets of ammunition on it, tied them down, and put the large pallet in the cell of a container ship. Once discharged and placed on the ground, a truck with a large arm that extends could pick up the pallet and put it onto the truck, just like the trash trucks operate. This concept proved very successful, in terms of moving containers in the combat zone.

The Air Force certainly was interested in moving cargo intermodally. Back in the 1960s, the Air Force developed a system for rapidly moving material onto cargo aircraft. The system consisted of a flat pallet about 108 inches by 88 inches and about 2 inches thick. The pallet was aluminum, so it could hold a maximum of 10,000 pounds. A cargo net was placed over the pallet. The Air Force developed cargo-handling equipment for moving these flat pallets. Today, all of the aircraft are equipped to take these pallets, from the C130, the C141, the C5, and the latest—the C17. These cargo planes all have roller systems in the floor and they can be offloaded in a matter of minutes, as compared to hours for other air forces. This is a very efficient system. It has some challenges from an intermodal perspective, because it is a flat pallet designed to operate on the aircraft floor-roller system. The forks of a forklift cannot go underneath the pallet. At the base, these pallets have to be put up on four-by-fours or something in order for the forks of a forklift to get under them, then they can be loaded on the flatbed truck and taken to the air base loading area. These pallets also present challenges in visibility, because they are not numbered in any way and because they are in high demand in a combat zone. They provide very good flooring for tents; they provide very good overhead protection, particularly with sandbags on top. The challenge is to keep them in this basically close-looped military system.

Protection of the cargo from the elements is a challenge as well as maintaining its security.

Future Direction of the Military

The future direction for the US Department of Defense (DOD) is maximum utilization of the commercial transportation systems. It is recognized that the commercial world, whether it is the aviation industry or the shipping industry, has great worldwide networks. DOD's goal is to use these to the maximum extent possible and to use the military capability for the out-of-the-way, hard-to-reach, not-normally-serviced combat areas. The direction is moving to roll-on/roll-off ships for unit equipment. This has proved to be the most efficient, effective way to move tanks, artillery pieces, trucks, and so forth. There are some current efforts to develop high-speed seacraft (40 knots) to improve rapid deployment capability. There also is an emphasis on radio frequency identification technology—read/write type tags to identify contents of the containers—and on management information systems for “factory to fox hole” in-transit visibility. The supply chain management piece, all the way from the depot right to the fighting position, is key to maintaining as little intermediate inventory as possible and to keeping things flowing on a predictable, reliable basis. Additionally, the Air Force is going to continue to use its palletized 463L system. It is currently the best in the world for moving material from the United States to a combat theater.

Andy Hok Fan Sze

President and Chief Executive Officer
Clipper Express Company

The Clipper Group consists of three operating entities. The Clipper Express Company, which was the original company founded by Jerry Chambers in 1938, is a freight forwarder. Over the years it has gone from the less-than-truckload (LTL) freight forwarding business into the intermodal marketing company (IMC) business. We also founded two companies at the beginning of deregulation in the early 1980s, one specializes in the temperature-protection transportation of produce and the other in truck brokerage and over-the-road trucking.

The freight forwarding industry was an early pioneer in intermodal, and freight forwarders got started in the 1940s as the railroads exited the less-than-carload (LCL) business. The freight forwarders supported those who wanted to move LCL using a combination of truck, rail car, and also truck trailer. Some of the big players were Universal Carloading, Western Carloading, Merchant Stor Dor, Lifschultz, and Acne Fast

Freight. The heydays were from the 1940s to about the 1960s, when the truckers, beginning to get bigger, gained market share. Because of their capability to run all over the country, gradually the trucking companies overtook the forwarders, taking most of the market share on the small shipments from the freight forwarders.

Clipper thrives on change and is an innovative company. Clipper decided it would become a shipper's agent, which gradually evolved into IMCs. We decided we would work with the shippers' associations to get things done. This is why Clipper, today, is the only surviving freight forwarder in the business.

Clipper Equipment Ownership Policy

One thing that distinguishes Clipper is its willingness to invest in intermodal. Clipper has actually owned and operated 15 different types of rail intermodal equipment. What motivated Clipper to go into equipment ownership? Some of the equipment needed to move the small shipments was simply unavailable from the railroads. By owning specialized equipment, Clipper saw that it could gain tremendous improvements in productivity, especially when it came to the drop-frame type of equipment. With double decking, Clipper could put more of the smaller shipments inside the trailer.

What did we learn from equipment ownership? One of the things that we learned is that you must not compete with the railroad. You will always lose. We tried to own equipment that the railroad would probably not want to own. We learned that when you own equipment and when you work with the railroad, not only are you dealing with technological change but also with changes in direction at the railroad. This can immediately put an equipment owner at an economic disadvantage.

For example, back in the early 1980s Hub and Clipper owned dry van fleets. When the railroad had a tremendous equipment surplus, there was absolutely no benefit for an equipment owner. So both Hub and Clipper were forced to find homes for this equipment very quickly. From this point onward, we became even more careful when it came to equipment ownership. We wanted to be sure that we would always have a lessor that would provide the capital to purchase equipment. We would lease it from them for three to five years and we would try to ladder the lease so that if things went badly, we would have a way out. In addition, we have learned how to limit equipment damages. We "beef up" the trailers very well, such as putting in all kinds of protection in a sensitive area of the refrigeration equipment so that the electronics will not be smashed.

Other Lessons Learned

In the early 1970s, we tried a blanket-wrapped furniture transportation service that lasted about a year. We found out that moving blanket-wrapped furniture just did not work too well in a rail environment, until the invention of the doublestack containers. We had so many damage claims that it was unprofitable. We also, shortly thereafter, tried to get into the business of shipping cars, and we did that for about a year. We found out that the core competency of a small-shipment, carton-freight carrier did not include marking down the little scratches on the cars in the inspection reports. When you are moving cars and fail to note these scratches on the inspection report, the company winds up giving a new paint job to every customer. That lasted a short while, and we learned from it. Now, we will sell the transportation of a car in an integrated container or truckload quantity. The customer will block and brace the car, close the door, and we handle the transportation. Since we started doing it this way, things have worked out pretty well.

We have put in some dockway receiving rates, which is a new thing in our business. Rather than sending our own truck to pick up the shipment, we allow our customer to bring the shipment to our dock, and we receive it at the dock. We save money for not having to pick up the cargo, and then we share all the savings with the customers. To customers that run their own trucks locally, it is a very desirable feature. This has worked out well for us.

In the early 1980s, we also learned that the shippers' agents and the shippers' associations, because they are unregulated, were able to ride very quickly the growth of intermodal by putting in very competitive rates in the marketplace. Because we were a regulated freight forwarder, anytime that we put in a rate reduction in response to a rail rate reduction, we incited the anger of the motor carrier industry. The motor carrier industry filed protests against us at the ICC, and successfully dragged out our rate review by the ICC by as much as three to four months. Sometimes we did not get ICC approval, so we were losing market share right and left. Ultimately, we were able to file suit successfully in the federal court and eventually gained the freedom to be able put in rates without any resistance from the motor carriers.

As a company, we also work very hard to increase and publicize the benefits of shipping intermodally. In the 1980s we ran a series of ads that heavily promoted the environmental benefits of shipping by intermodal. We actually have statistics that show the shipping public how many barrels of oil are saved by shipping intermodally. We have devoted a good deal of money to painting animal murals on the trailers, depicting endangered species, tying intermodal to the environment. This has generally

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worked very well in moving goods, with the exception that, occasionally, when goods are moving through some of the states in the West, one of our gorillas or one of our rhinos gets shot through the head.

Clipper was also an early proponent of the doublestack. In 1972, we actually drew up a diagram for the railroad and showed them all of the benefits of doublestacking. We lacked the shipping traffic that APL could bring to the table, so this was not successful at that time. But the thought was something that we conceived early on. In this business, you have to be willing to commit, you have to be willing to innovate, and you have to be able to deal with change.

