



You're not entitled to anything!

By John A. Gentle, DLP

HAVE YOU NOTICED THAT THE TRANSPORTATION marketplace has changed? Just six short months ago, shipping activity was on pace with levels of activity we saw in 2005. Since then we've noted that the usual "Fall Surge" was a no-show and the supply-demand curve has fallen below 2002's levels.

With all of these changes moving the market ever so slowly in shippers' favor, perhaps you're thinking that you might be *entitled* to a better deal from your carrier partners. From what I'm hearing, some shippers are indeed thinking that way. I can't tell you how many times I've heard stories recently about management saying things like, "I see from your weekly report that capacity is easing; that must mean there are more carriers out there looking for business." Or: "You may want to call all of your carriers and tell them we need a rate reduction." And even this: "Call what's-his-name, he's been looking for our business, so offer him something and let's see if we can get him to bite."

What should you do in a case like that? Stick to your guns and tell your boss that contracted rates need to be honored—and possibly risk a poor appraisal, or worse? Or go back to all of your carriers and demand lower rates because management believes you're entitled to a better deal?

I don't think that buyers of logistics and transportation services are necessarily intending to be deceitful when they rationalize the latter type of behavior. But renegeing on a signed agreement does little to raise the image of our industry, and it puts us on par with those who make nebulous or misleading statements just to gain agreement.

The best approach to solving this problem, of course, is to seek out business partners who have great integrity. At the same time, both parties must recognize that although they have negotiated what they believe to be fair rates and have tied them to committed capacity, the market will always be shifting in someone's favor.

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With that in mind, here are three tried and true ways to address pricing in a fluctuating market:

1. Agree on an industry-accepted index and on trigger points that indicate when rates can be renegotiated by either party;

2. Negotiate two sets of rates and capacity commitments. One set is "fixed" and does not change regardless of market conditions. The second, or "market," set covers a certain amount of capacity that is committed by the parties at a price to be negotiated now or at a later, designated time;

3. Agree to offset deadhead miles that are incurred by the carrier in order to bring capacity from remote areas during specified time frames.

The benefits of pursuing any of these approaches will be reflected in your ability to continue to offer superior service to your customer, attract carriers with similar values to your program, and more

effectively use human resources to work on critical supply chain initiatives.

Regardless of which approach you select, you can prevent unpleasant situations involving pricing by

having a clearly defined operating protocol that specifies how this issue is to be handled. And you should insist that both sides' senior management sign the agreement. People are less inclined to change something once they've signed it.

Shippers and carriers who don't honor their commitments or who use accessories to circumvent their agreements deserve each other. Furthermore, there can't be anything worse than getting a reputation for dishonesty, which eventually will result in the inability to attract partners of any kind.

Carriers need to keep their customers competitive, while shippers need to recognize that pushing their carriers into cycles of unprofitable compensation is destructive. Dishonoring the commitment each has made to the other shows little respect for the value each party brings to the arrangement.

I don't know what your parents taught you, but mine told me, "You're not entitled to anything." If you agreed to do something, you had better honor that commitment and not look for loopholes or other ways to get out of it.

At the end of the day, it's about old-fashioned honesty, commitment, and leadership.

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