Introduction

Shippers and their customers, the companies that transport goods between the two parties, and insurers “covering” the cargo for loss and damage, want the same result, but inherently, have different ways to achieve their objectives.

Shippers/customers typically search for ways to minimize the time to market. They emphasize speed.

Carriers (i.e. the transportation providers) seek to maximize equipment and manpower deployment and look for the least expense.

Insurers look for asset protection, first and foremost, and strive for safety.

This document tries to guide shippers in the ultimate selection of their carriers, knowing that while they cannot always attain the optimum, the best possible solution may be to satisfy their needs and those of the various stakeholders.

It is always preferable to reach an agreement with the transportation provider (ocean carriers, airlines, truckers, freight forwarders and other third-party logistics companies) prior to entering into contract with them.

In addition to the purely financial aspects of the transaction, the shipper should place requirements on the carrier relative to roles and responsibilities. The idea is to ensure that those carriers that you select have the capabilities that you deem essential.

The selection process is prospective (i.e. before you actually hire them); but, once selected, the carriers periodically should be evaluated in order to measure performance.

Possible Carrier Selection criteria and/or requirements

Here is a listing of possible criteria/requirements geared toward transportation providers:

Organizational structure: The carrier should have a dedicated point-of-contact specifically dedicated to you. This should be a person with enough stature in their company who can respond to your inquiries but who also has the authority to make decisions on behalf of the carrier.

Professional reputation: The carrier should be active members-in-good-standing in local, regional, national or international trade or industry groups.

Present customer contacts/references: The carrier should be able to furnish you with a list of current customers (ask for at least three references) so you can query them on the carrier’s performance.

Financial stability: The carrier should provide financial data (balance sheet, income statement, etc.) contained in their Annual Report, 10-K or from similar documents. Your Financial Department can use a number of short-run performance and long-term ratios (e.g., acid test, debt-equity or total assets turnover) to assess the carrier’s ability not only to stay in business, but also to have the financial wherewithal to make necessary capital improvements.

Pricing/rating structure: Is the carrier’s pricing structure in-line with similar transportation providers? What has been their recent history of pricing/rating? The carrier should have flexibility in rating based on volume, longevity of contract, etc.

Carrier’s costing/financing system: The carrier’s costing/financing system should be easy to explain and understand. The mechanism should also be consistent with the services provided.
Billing cycles: The carrier’s normal billing cycle should be compatible with your Accounts Payable strategy. The carrier should also offer some discount for early payment as well as deferred payment options.

Quality of carrier and staff: The carrier should have solid pre-employment screening practices and should foster personnel improvements in general business and technical areas.

Operating philosophy: The carrier should have a record of innovation, including participation in voluntary quality initiatives such as:

- Quality Circles
- Continuous Improvement, et al. The carrier should hold a current ISO 9000/1/2 certificate. Ocean carriers must be in compliance with the IMO International Safety Management Code (ISM), including a Document of Compliance (DOC) for shore-side operations and a Safety Management Certificate (SMC) for all vessels of 500 GRT or over, engaged in international trade.
- Participation in the Customs-Trade Partnership Against Terrorism (C-TPAT). Participation in the Container Security Initiative (CSI) or similar national programs is a plus.
- For high-tech, or high-value, shippers, carriers should be members of the Technology Assets Protection Association (TAPA), must follow TAPA’s Freight Security Requirements (FSR’s), and either have obtained, or are pursuing, certification for their warehouse locations.

Workforce: The carrier, whether they are a union or non-union shop, should have an in-force, long-term labor contract. Also, they should have an acceptable history devoid of lengthy work stoppages, strikes, disputes, etc. Employee turnover rate should be at or below the industry average.

Geographical coverage: The carrier should be able to handle traffic lanes that you need and with the transport frequency that you require.

Communications capability: The carrier should have Electronic Data Interchange (EDI) satellite-tracking that covers both tractor and trailer, on-board computer linkage, bar coding and other state-of-art tracking devices. The carrier should also be able to provide ancillary services, such as assistance with import/export documentation, Customs clearance and other related activities. Over the road carriers operating in the EMEA (Europe, Middle East and Africa), which subscribe to Eurowatch or other comparable regional communications services, should be preferred.

On-time performance and target: The carrier must consistently meet your on-time performance targets.

Fleet size: The carrier should have enough equipment of the type (dry containers, refrigerated trailers, air cargo freighters and air-ride suspension trucks) of vessel that you require. This equipment should be readily available to you at/near the shipment origin point. In this way, sub-contracting is minimized. (See Use of owner-operators and/or sub-contractors below).

Intermodal linkages/partners: The carrier should have partnerships with reputable intermodal transport providers in all areas where you do business. For example, they should be able to orchestrate a movement to the United States from the Pacific Rim, as well as to/from mainland China, Central America or any of your worldwide markets.

Use of owner-operators and/or sub-contractors: The carrier should use sub-contractors only when/if they provide you with prior notice and you give consent. The carrier should be responsible to ensure that there is minimal use of sub-contractors and that any sub-contractor that is used meets your requirements. If the carrier sub-contracts a load, their original contract obligations must remain in place.

Cargo service: The carrier should have the ability to handle the type of cargo you ship, whether it is loose or break-bulk, consolidated/full truckloads, less than truck loads, or intermodal containers and trailers.

Fleet condition and maintenance: The carrier’s equipment should be periodically renewed and the average age of the equipment should fall below the average for the industry. The carrier’s maintenance schedule also should meet or exceed industry standards. In addition, the carrier should have bona fide agreements with qualified repair facilities for emergency road service in the geographical areas they are traveling.

Cargo equipment inspection frequency and procedures: The carrier’s personnel should carefully inspect the structural integrity and condition of the equipment – tractor/trailer, intermodal container, air cargo unit load device (ULD), including cargo-securing mechanisms (lashings, tie-downs, etc.) and security devices (alarms, seals, locks, etc.) to verify they are suitable for use. Personnel should perform necessary preventive maintenance and repair and retain all maintenance records.

Experience in hauling cargo similar to yours: The carrier should have experience and expertise in handling your type of equipment and materials, as well as other product-line capabilities. Check with industry peers directly and individually, or through your trade association colleagues, for input. You may also check with the references furnished to you by the carrier. The carrier should provide you with a list of products they carry. Special attention should be given to any product they carry that may potentially contaminate your shipments.
High value cargo handling and transport: The carrier should have documented procedures for high-value cargo, theft-attractive cargo, pilferage and hi-jacking. The procedures should be in writing, contained in the company’s employee manual and updated periodically. Usually called Standards of Care, they often are incorporated into the carrier’s contract. Ensure that your own critical standards of care for your product will be provided by the carrier. Procedures should be subject to audits by you, or by a third-party that you choose. The carrier should have physical hardware to protect high-value shipments during the entire course of transit, including storage/staging periods between origin and destination. At a minimum, carriers should follow TAPA Freight Security Requirements (FSR’s) or other applicable local standards.

Cargo security devices: The carrier should use appropriate security devices, such as high-quality seals and locks, “kingpin” or 5th wheel locks. The carrier should also have available niche items that afford a greater degree on in-transit security.

Cargo information security: The carrier should restrict knowledge of your cargo identity to those with “a need to know”, to include documentation. Carrier equipment should not have markings that indicate that they are carrying your cargo or other attractive merchandise. “Information flight” is one of the major trends among cargo theft incidents.

Cargo tracking: The carrier should provide real-time system tracking/tracing of all your shipments.

Routing: The carrier should offer direct routing with no stoppages, which means more expeditious and, hence, shorter transit times. It minimizes physical-handling of your cargo and the time that cargo is at rest and, therefore, most at risk. For example, transshipping, hub-and-spoke routing, and in-transit transfers at the carrier’s terminals should all be minimized, if not eliminated. If there are stoppages, the carrier should ensure that your cargo is protected in a security cage/crib or, if mobile, that the shipment is parked in a secure, well-lighted area, with the driver present at all times. This guideline has to be tempered with common sense. It simply is not prudent, and in fact goes against most government regulations, to have a truck driver transport a shipment for over 12 hours without a sufficient rest period. If the cargo is high-value and the anticipated transit is of long duration the carrier should consider using a two-driver team.

Pre-employment: The carrier should conduct thorough background checks of all perspective employees, including direct contact with previous employers and references. They should update periodically all driver records/violations, criminal search, credit/financial ratings and other relevant data. Screening should incorporate a pre-hire medical exam including drug/alcohol screening. Once hired, random drug-testing is also a positive loss prevention step. This is particularly critical for truck drivers, who are thought to be complicit in over 85% of all motor truck cargo thefts. Once your cargo leaves, it is in the driver’s control.

Training: The carrier should have job-specific pre-employment competency testing and periodic developmental training curriculum for each type of employee involved in any aspect of cargo-handling or transportation. For trucking companies, every driver should pass a defensive driving course and be trained in hi-jack awareness and preparedness. Fork lift operators in warehouses and distribution centers should be trained and certified to operate their specific equipment, either through an internal or external training/certification program. Job-related training records should be maintained for all employees and provided to auditors, on request.

Discipline: The carrier should have a formal, written policy statement and take quick and effective action against employees involved in cargo loss/damage or on-the-job accidents involving cargo.

Cargo inventory: Carrier personnel should perform a count-and-condition check of all your shipments, at each transport leg or hand-off point, including at destination delivery or to the consignee.

Loss/damage notification: The carrier should contact you or your designated representative immediately should there be evidence of loss or damage to a shipment. You should provide the carrier with appropriate contact names/numbers. Carriers should also be able to assist in minimizing the extent of loss or damage through recouping, segregating and similar activities.

Insurance Coverage: The carrier should retain liability limits commensurate with the value of your largest anticipated shipment.

Limits of liability: The carrier should be agreeable to negotiating a recovery rate for loss or damage that accounts for the average value per kilo of your product, rather than simply relying on the terms of the standard ocean or air waybill, CMR or similar liability regime. These are commonly called contingent liability or increased value contracts. Shipper should consider defining what constitutes gross negligence, the determination of which could void conventional liability limits. This definition should include non-compliance with the critical Standards of Care. In ocean shipment, the bill-of-lading should not include foreign arbitration clauses. This may mean that any dispute must be settled overseas, making settlement more protracted, costly and unpredictable.
Loss and damage experience: The carrier’s actual loss and damage experience should be a determinant factor in the selection and retention process. Consideration should also be given to reviewing a carrier’s safety/violation records, which may be kept by regulatory agencies such as the US Department of Transportation.

Claims handling philosophy and standards: The carrier should respond to claims in a fair, timely fashion. Often, the carrier will appoint a surveyor or adjuster to investigate a loss, but the shipper should have the right to appoint their own representative.

Monitoring and Control: Once a carrier has been selected or contracted to provide service, their performance should be tracked and monitored in the key performance areas. Weighted criteria can be utilized to measure the carrier’s performance. The key factors measured should include on-time delivery, customer satisfaction, non-delivery/theft, shortage and pilferage and physical damage. Review the carrier’s performance, at least quarterly. Once sufficient time has passed to establish the carrier’s experience, if the rate of failure for any of the measured criteria increases, it should be brought to the carrier’s attention for possible corrective action. Also, by keeping these types of records, individual carrier’s performance can be compared to determine the better carriers.

Conclusion

This dynamic list should be revisited regularly. Also, shippers may wish to develop numerical ratings for each carrier by “weighting” each criteria/requirement depending on importance. This may be a method of choosing among several providers with different strengths and weaknesses. We would also encourage shippers to consider having a primary and secondary carrier, with appropriate ratio percentages of shipments (such as 80/20). By doing so, it creates a built-in incentive for carriers to improve their performance, as each will be vying to increase their market share. Also, this gives the shipper the option of readily diverting a larger percentage of cargo to the secondary carrier, should the performance of the primary carrier decline or should a problem arise.

References

- Safety and Fitness Electronic Records System (FMCSA data)
  www.safersys.org/
- Carrier Watch
  (Carrier Monitoring Services)
  www.TransCoreLogistics.com

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