Harried customers desperately seeking service

THE ISSUE OF SERVICE HAS LONG plagued the transportation industry. By now, it is practically impossible to distinguish the discussed service from its symptoms.

As any frequent traveler can testify, flying has become increasingly difficult. Extensive delays, missed connections and other disruptions abound. The Federal Aviation Administration recently stated that 70% of delays are caused by weather.

This may sound reasonable, but many airlines believe the FAA is placing excess blame on weather to avoid acknowledging shortcomings in management, operations, and technology.

Bob Crandall, former head of American Airlines, recently argued that "delays are, for the most part, attributable to failures of the air traffic control system, and not to either the weather or the inability of airlines to have their flights ready to depart as scheduled."

During last year alone, consumer service complaints against airlines increased by 130%.

Service problems have enveloped the rail industry, too. In fact, difficulties surrounding several recent mergers — and the need to restore industry stability — contributed to the Surface Transportation Board's recent decision to impose a 15-month moratorium on further rail mergers.

On the other side of this STB decision were many shipper groups supporting BNSF and CN in their pledge to provide a guaranteed service.

Suddenly, service is the critical issue for our industry to face.

In contract negotiations with railroads, I have seen the full spectrum of approaches to service guarantees. Few railroads were even willing to consider such a step. Many avoid the process entirely.

(My personal favorite was the "scheduled" railroad with a quality process in place — so no guarantees were necessary.)

If a railroad is willing to provide service guarantees, four issues stem from discussion: type of guarantee, product design, contract administration, and penalties.

The nature of a guarantee concerns the extent of it. Is every shipment promised, or does the railroad make efforts to achieve only a certain threshold of service compliance (for example, that 90% of shipments will be on time.) The latter has been the more common arrangement, but there is no real attempt to resolve possible problems surrounding the remaining units moved.

Product design is another important consideration for these conversations. In many cases, service is negotiated. Customers have their requirements, but railroads have their realities. Shippers wish to publish attractive transit times to customers. Railroads want to build in as much slack as they can to improve their performance.

All this can result in discord between the railroad commercial and operating personnel. I recall one railroad operating officer who said, "I'd like to help you, but I can't. If I help you, I'd have to help everyone. Go talk to marketing — they agreed to this contract, not me." (The marketing people were too terrified to argue.)

Some shippers want service guarantees on information and support, in addition to the underlying transportation. FedEx is the model. It moves a shipment with almost total reliability — or your money back — and supplies complete door-to-door information. All for $10.

Why can't the railroads, which are providing service to larger units of movement — at greater expense — even approach this level of service?

Measurement is often difficult. Railroads and customers often may assess service differently. I have seen railroads point to intermodal trains running at 90% reliability, ignoring the fact that the load sat for two days in their terminal before departure. (The operation was a success but the patient died.)

Unfortunately, the limited good will available is often consumed fighting over data before you can address the underlying service issues.

Additionally, railroads rather liberally try to excuse poor service by citing force majeure. A snow storm in Florida is an act of God, but snow in Chicago is simply weather. It seems that railroads spend more time invoking exceptions than developing service solutions.

Finally, there is the issue of remedies. Most railroads resist the idea of financial penalties. Although these are clear and concise, railroads will argue that the low, competitive rates they offer leave them no leeway to incur service-penalty expense.

On the other hand, shippers do not want to pay for service. The result is a standoff.

The least understandable remedy is the permission granted a shipper to terminate a contract. Given industry consolidation, it is impractical to imagine negotiating a contract, choosing one railroad and then returning to the other.

As Ed Emmett of the National Industrial Transportation League has pointed out, when you get bad service from one trucker, you use another. When you get bad service from one railroad, you are stuck.

Recently, Lockheed Martin agreed to provide a performance bond to the United Arab Emirates. This bond guaranteed service penalties of up to $2 billion on a deal valued at $6.4 billion.

That's putting money behind a service promise. And it certainly can serve as an example to the rest of us.

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