LEADING BY EXAMPLE

LAST YEAR, U.S. Army Chief of Staff Gen. Raymond T. Odierno wrote about “The U.S. Army in a Time of Transition” for Foreign Affairs magazine. He outlined how “the service will have to adjust to three major changes” of declining budgets, shifting emphasis to Asia and a need to “shape the strategic environment.” The transportation industry has faced these challenges for years.

After deregulation, carriers had to balance their supply of capacity with demand for their services. Revenue growth from new business was always attractive, but often unprofitable. Frequently, this business was only attainable through aggressive pricing. As a result, profitability grew much slower than revenue. Ultimately, success required cutting costs.

In Washington, both political parties have embarrassed themselves by first creating — and then denying their role in — the budget sequestration process. A need to reduce spending was the basis for the 2011 budget deal between President Obama and Congress. The agreement mandated painful spending cuts in the absence of a budget deal. This political theater ended with the kerfuffle over air traffic controller furloughs — and resulting flight delays. After less than a week, sequester cuts in this area were eliminated.

Neither strategy was wrong; both were right for their specific time. Transportation companies today are constantly re-evaluating strategies for possible improvement. Examples include network design (hub-and-spoke or point-to-point), procurement (build, buy or lease) and production (in-source or outsource).

Technology has been a critical component of progress for 30 years, but it wasn’t always a standalone solution. Although improved communications technology allowed for many local offices to be consolidated, most early efforts failed because reductions in personnel didn’t line up with expectations for productivity. Success was usually the result of effective business process engineering of automation projects, not mechanization of the status quo.

Technology changes not only are increasingly large, but they also can change quickly. Larger ships have changed the economics of liner shipping. The first lines to acquire 8,000-TEU vessels had a cost advantage over their followers because of an increase in the price of steel.

Carriers that waited to acquire 12,000-TEU vessels, however, have an advantage over the first movers because of the drastic improvements in engine technology in just two years — and the newer vessels cost much less to operate.

These examples are a small sample of management decisions with major impact. Our industry requires significant investment — and frequently results in profit margins that are less desirable than we’d like. Improvement is a constant mandate. The gap between stretch goals and arbitrary targets continues to shrink, and may differ depending on who is evaluating it.

For the freight transportation industry to grow, we must strive relentlessly and responsibly to improve — ideally in a balanced fashion. Regardless of setting, we all must navigate political challenges to achieve a beneficial outcome.

The public sector used to set the stage. Now it might fall to the private sector to demonstrate to our elected leaders the path forward. joc