

**TESTIMONY OF
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SENIOR VICE PRESIDENT
C. H. ROBINSON**

**ON BEHALF OF THE
TRANSPORTATION INTERMEDIARIES ASSOCIATION**



**BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
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HOW LOGISTICS FACILITATE AN EFFICIENT FREIGHT TRANSPORTATION SYSTEM



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Chairman Duncan, Ranking Member Nadler, and members of the Committee, thank you for the opportunity to testify at today's hearing. As one of the nation's largest Third Party Logistics providers and a proud member of the Transportation Intermediaries Association, C. H. Robinson has a unique view of how goods and commerce flow from manufacturer to consumer. The transportation brokerage and third party logistics industries have grown substantially the last 10 years and I look forward to providing you an overview of our role in the marketplace and some recommendations to facilitate the movement of goods as you prepare for the next transportation bill.

Introduction of Scott Satterlee

My name is Scott Satterlee and I am a Senior Vice President for C. H. Robinson. I joined C.H. Robinson in 1991 and have been a vice-president since 2002. I am responsible for overseeing the operations of our 175 US branch offices which employ more than 8,400 US employees.

Introduction of C.H. Robinson

C. H. Robinson was founded in 1905 and currently facilitates the movement of over 11.5 million shipments per year. We have always prided ourselves on being one of the world's most innovative third-party logistics companies and have been named the number one 3PL for two years in a row by Inbound Logistics magazine. All of our offices are networked through a common proprietary operating system that provides our employees, our customers and our contracted carriers' visibility to freight shipments across the country and across the globe regardless of mode. The vast majority of the shipments we manage weigh more than 200 pounds.

Additionally, C.H. Robinson is a member of the Transportation Intermediaries Association (TIA) the leading association for the third-party logistics industry. TIA is the professional organization of the \$162 billion third-party logistics industry. TIA represents over 1,300 member companies. Over 70 percent of these member companies are small, family-owned businesses. TIA is the only organization representing transportation intermediaries to shippers, carriers, government officials and international organizations and is the U.S. member of the International Federation of Freight Forwarder Association (FIATA).

C.H. Robinson relies on all of the nation's freight capacity to manage our customers' shipments on a daily basis. We do not own any equipment with wheels, so we are mode neutral when tendering shipments. Our highly trained employees make decisions every minute about how to route freight across the country for over 40,000 customers. We monitor and qualify over 45,000 US-based motor carriers for proper authority, valid insurance, and other data points. 82% percent of all carriers operate three or fewer trucks and 98% or carriers operate 25 or fewer trucks. Many of these companies do not have their own dedicated sales force, so companies like C.H. Robinson enhance their sales capabilities.

We also have access to all class 1 railroads for intermodal freight; we operate a series of gateways and consolidation centers for airfreight and ocean freight and perform customs clearances as a licensed customs broker. We provide visibility to all forms of capacity to our shipper customers.

Since we do not own and operate any power units ourselves, we must add value to both our customers and our carriers. By matching the right mode and route to serve the shipper, we dramatically save time and money for both carriers and shippers. Our industry has helped lower logistics costs as a percent of GDP by several percentage points since deregulation, to what is now estimated to be approximately 8.5 percent according to Rosalyn Wilson, author of the *23rd Annual State of the Logistics Report*. As many of you know, this provides American businesses a significant global advantage.

Because of our broad reach, C.H. Robinson likely had a role in the movement of some of the things you and your staff will use during the course of your day here. From the TV, bottled water, soda or candy in your office; to the produce and food in your fridge or at the restaurant tonight, there is a good chance it travelled on a truck we helped to arrange. From the car battery or the bicycle that started your day to the mattress and beer that may end your day, those are all examples of some of our customers.

Some shippers only use our services a handful of times a year on a transactional basis when they need assistance finding a truck, while other customers have fully integrated our services and even our people into their transportation departments.

From our viewpoint, there are two distinct markets within freight transportation. The first is local distribution typically arranged by a warehouse based 3PL, private fleet such as a beverage distributor, or a dedicated local fleet. Local distribution typically supplies stores, restaurants and other point of sale facilities with regular deliveries in order to restock shelves from a warehouse or distribution center.

The second category of freight transportation is regional or long haul transportation that typically moves from the manufacturer or grower to another manufacturer, packer, warehouse, distribution center, dealer, or job site. These moves tend to be less regular and move on for-hire motor carriers. Transportation is full of exceptions, but for the most part, C.H. Robinson, like other 3PL's, arranges regional and long haul transportation. For many manufacturers, we typically execute shipments between their manufacturing facilities and their suppliers, deliveries to their dealers or distributors and perhaps directly to a customer ordering a full or partial truckload worth of goods.

So how does freight get assigned and picked up across the country in the regional or long haul marketplace? It starts with data. Over the last 10 years, manufacturers and retailers, with the help of 3PL's and sophisticated transportation management software, have collected increasingly better data regarding movements across their supply chains. We help customers both collect this data and turn it into a format that can be bid on by transportation providers. Through C.H. Robinson Consultative Services, a customer conducts a bid to collect and compare rates from a core group of transportation providers. One of those core providers could be our Knoxville or Secaucus transportation brokerage offices.

Once analysis and negotiations have been conducted, a routing guide is developed to be executed over the next year or designated time period. If a shipment is tendered to us electronically by a customer from Davenport to Ft. Collins for example, a division of C.H. Robinson called the Transportation Management Center automatically offers the load electronically to the first carrier on the routing guide in that lane. If that carrier does not

accept the load within a given time period, typically an hour or two, then we offer it electronically to the next carrier. Approximately 40% of freight in the regional or long haul market typically has a lead time of 48 hours or less. This afternoon, across our network, we are receiving our first notice on thousands of loads that will need to be covered tomorrow morning.

Our Transportation Management Center acts as the execution arm for many of our customers' transportation departments. We execute routing decisions of mode and carrier selection our customer has already established and has signed contracts with those carriers directly. Some people call this service a 4PL or shipper's agent role. This environment is highly automated and produces a tremendous amount of data to analyze and improve.

As I mentioned previously, we also act as a traditional freight broker for almost all of our transportation customers. If our rates and service levels are competitive, our TMC division may tender C.H. Robinson brokerage freight just like they would any other provider. In the brokerage environment we provide carriers access to services such as consistent and rapid payment, fuel advances and user friendly websites to search for and manage loads, paperwork, and receivables. Our carrier focused load boards average over 13,300 unique log-ins per day with the average user logging in over 30 times per day. We keep carriers' equipment filled and moving.

We bring hundreds of carriers of all sizes to our customers through our brokerage services that normally would never have a chance to access their freight due to technology, payment, or contracting requirements. For example, one carrier with 10 tractors is

frequently used by our Iowa City office on a lane from California to Iowa. This small carrier may do 40% of all their business with our Iowa City office. Not all of that business will be shipments for the same customer, but we provide that carrier a consistent flow of freight as best as our opportunities allow.

In theory, transportation sounds pretty simple based on what I have described so far. If you have a load, find a truck, assign it and deliver the freight. Then, exceptions happen. Weather and traffic delays, equipment failures, IT glitches, unaligned expectations, changing regulation, lane capacity imbalances, business seasonality, cargo theft, and of course economic conditions all add tremendous complexity to the system. 3PL's excel at exception management and facilitate solutions to both chronic and unanticipated exceptions. Some examples of chronic exceptions we work to identify and resolve with our customers are short lead times and heavy reliance on expedited services, excessive loading and unloading time, poor visibility to inbound or outbound freight, and securing surge capacity during busy seasons such as the end of the quarter. Some examples of unanticipated exceptions we help to manage are cargo theft, cargo claims, recall management, and disaster and storm recovery operations.

As we manage and match carriers to shipments across the country, there are two primary insights about the transportation marketplace we would like to communicate that may help you when thinking about transportation policy into the future. First is to reiterate that a typical lead time on notice of shipments in the industry is 48 hours or less. It truly is amazing that the modern transportation system expects providers to arrange for refrigerated transportation of 40,000 lbs of produce to go from Salinas, CA to Hunts Point

in New York with 3 stops in between on less than 48 hours' notice. Imagine if most of your office appointments, including this hearing, were scheduled only 48 hours in advance. This is one of the primary reasons that truckload service is the dominant mode of transportation for freight in the nation and will be for the foreseeable future.

The second insight from our viewpoint is how important the small and medium sized motor carrier is to the nation's transportation system. 98% of registered carriers have fleets of 25 trucks or fewer. They provide the flexibility and service to keep our entire transportation system in equilibrium. If capacity gets too tight, it is the entrepreneurial owner operator who will start a trucking company or add to their fleet in order to fill the market need. Our current system has a significant advantage because an entrepreneur can get into the trucking business and find freight to support their new business with relative ease, although it is becoming more difficult.

Finally, as the committee and staff prepare for the next investment in our nation's transportation system, we offer these recommendations where government can reduce both chronic and unexpected exceptions therefore increasing efficiency in the supply chain:

- 1) **Provide shippers and brokers clarity on which carriers are safe to hire in regards to the CSA program.** We testified last September on behalf of the Transportation Intermediaries Association about the confusion in the marketplace around the CSA program. That confusion still exists today. Freight brokers and shippers should not need to second guess the FMCSA on who is authorized to operate on the nations roadways.

- 2) **Reduce the impact of both chronic and unexpected delays due to congestion.** While calculating the cost of congestion, we have seen a focus on the direct costs such as time and fuel. Congestion delays also have a ripple effect in the supply chain. For example, if a load we are managing is unexpectedly delayed in traffic and may miss an appointment or pick up, our staff and the shippers' staff is disrupted, our carrier may miss their next load assignment or a vendor may be fined by a receiver. Shippers also tend to carry additional inventory to compensate for irregular transit times.
- 3) **Encourage our transportation system to have built-in modal flexibility.** Modal flexibility helps shippers and 3PL's respond to market forces and provides for competition. Exceptions of all sorts are easier to manage when other options for movement are available. An example of modal flexibility would be an increase in rail ramps across the nation or a viable short sea shipping program.
- 4) **Make sure trucking remains a great opportunity for the small and medium sized entrepreneurs.** Equilibrium of capacity and transportation freight rates relies upon the ability of trucks to successfully enter and exit the marketplace in an orderly and unencumbered fashion. Barriers for small carriers includes the difficult choices carriers have to make in order to serve the California market due to environmental regulation which is significantly different from the rest of the country.

5) **Help industry address the growing rise of sophisticated cargo theft.**

Like the modern transportation system, cargo theft is becoming increasingly sophisticated and crosses many jurisdictions. Cargo theft is a significant form of unexpected exceptions challenging freight efficiency. Regional cargo theft task forces are under increasing budgetary pressures from law enforcement agencies, but provide industry and consumers valuable deterrent to a costly problem.

6) **Ensure consistency between food safety regulations and cargo**

claims regulations. Freight cargo claims are guided by federal statute including the Carmack Amendment to the Interstate Commerce Act and regulations promulgated under it. These laws and regulations clearly outline roles and responsibility for motor carriers and shippers. Because of increased awareness of food safety regulation, it is now common for a shipper to request the destruction of hundreds of boxes of food without clearly establishing proof of actual damage. Shippers are expecting settlement under strict liability standards without meeting the necessary burdens of proof established under law. 3PL's are often caught in the middle of the tension between freight cargo claims responsibility and food safety fears. This is a chronic source of exceptions for efficient transportation of freight within the supply chain.

7) **Within the area of supplier diversity goals, we encourage you to**

recognize the growing opportunities for significant supplier diversity spending within transportation. Our carrier base is

becoming increasingly diverse however, when a diverse carrier gets a load through C.H. Robinson, they are not counted as tier 1 or direct spending. The dollars we pay our diverse carrier base should be considered as tier 1 spending because our services are often so heavily intertwined with shippers' transportation departments. We are seeing increasing confusion around the flow of transportation dollars through 3PL's and how they should be calculated towards supplier diversity goals.

Thank you for the opportunity to provide insight into how freight flows across the country. The physical infrastructure of our nation is obviously the most important factor in freight efficiency and we fully support infrastructure investment. However, customers of 3PL's have found that we can significantly improve the efficiency of their supply chains without owning equipment ourselves and improving processes to better utilize the physical capacity available. We are encouraged and optimistic that the next highway bill can find ways to improve the nation's freight efficiency by addressing some of the non-infrastructure barriers to the efficient flow of freight across the country.