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AGRIBUSINESS MANAGEMENT

TRANSPORTATION MANAGEMENT: WHO NEEDS IT?

By Ken Casavant*

Transportation management confronts every industrial and commercial organization in the United States. For agribusiness firms, transportation represents a dynamic link between widely scattered food producing regions and our nation's dining tables. A head of lettuce growing in California one week may be in a salad in New York City the next week. Broilers in a Chicago supermarket are often raised in Georgia, feed for them coming from the Midwest.

These shipments indicate why transportation management is particularly important to agribusiness firms. The production of agribusiness firms is uniquely characterized as requiring transportation to areas of utilization and consumption. Few agribusiness firms deal solely with a service; most are involved with the processing of an agribusiness product, one whose production area is geographically separated from its consumption region.

A generation ago these particular interregional shipments hardly existed. Their development illustrates the important role that transportation plays in agricultural marketing, both at the industry and firm level. Today's agribusiness manager should, as he strives to improve his firm's performance, be aware of the importance of this transportation service to his firm; internally, as in potential reduction of costs,

and externally, as a potential avenue of market expansion.

The logical desire for growth of the agricultural firm, if accompanied by local market saturation, commonly creates a transportation problem. Soon the buying and selling of transportation services becomes a larger and larger component of the overall management challenge. As firms grow, the area known as traffic management requires that more and more professional competence be shown by practitioners in the area. In the smaller firms the sales manager commonly undertakes the role of traffic manager, sometimes with unsatisfactory results, i.e., the sales manager of a farm supply firm who in trying to minimize traffic charges, almost doubled the inventory costs to his firm.

Objectives

As a basic introduction to the area of traffic management this paper will 1) indicate the historical role of the traffic manager, 2) provide criteria for deciding whether a traffic manager and separate traffic department are needed, and 3) suggest several qualifications that a competent traffic manager should have.

Historical Role

In the past (and even now?) the shipping public was often hostile to the carriers of their products. This feeling of hostility was mutually returned on the part of the carriers who looked with suspicion on the motives and actions of the shippers. These feelings of rivalry and distrust led finally to the

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regulation of the railroads, and eventually other common carriers, and the improvement of the environment under which the buying and selling of the transportation service was accomplished.

Wilson, in Traffic Management, suggests that the traffic manager had a unique role to play in those rip-roaring, rate-cutting times. The old conception of an industrial traffic manager, who practiced during the riotous days of special privileges and rebates, was that of a man sufficiently familiar with the inner workings of the carriers to obtain whatever rebates could be obtained, and honest enough to turn over to his employer any rebates he received from the carrier's agents. The successful traffic manager during this period was one who was familiar with the rates of freight and strategic positions of their industries so as to drive the best bargain for his employers with the railroads.

From this historical caricature came the role of the present traffic manager. Many traffic managers are still functioning as rate specialists or shipping clerks. However more and more competent traffic personnel are now holding executive positions in agribusiness firms with far-reaching duties and responsibilities. The need for expertise in traffic management was accelerated by the revival of different modes of transport and by new emphasis on customer service. For example, as the environment surrounding the agribusiness firm became even more competitive, a broadly trained and adept traffic manager became a critical factor.

Whether the functions of a traffic manager should be performed by the present general manager, by a specialized transport control manager, or as some combination of the two is the subject of the following section.

Need for a Traffic Department

As an agribusiness firm attempts to ascertain just how much need exists for a specialized traffic manager, the logical point of departure is the determination of the extent of your company's transportation problem. This can depend on a combination of factors. Flood in Traffic Management, and other authors suggest several technical points as important. Moreover, ask yourself:

1. Whether your finished goods are sold on an F.O.B. point of origin or on a delivered basis. When sales are made on a delivered basis, the seller absorbs the freight charge. Consequently in the seller's firm, the importance of traffic planning and rate research, and its resultant savings in freight charges can be more clearly seen by the agribusiness manager as a direct reduction in production costs.
2. Whether raw materials are purchased on an F.O.B. point of origin or F.O.B. destination basis. This becomes important for about the same reasons as those mentioned in the finished goods question.
3. Whether the commodity being shipped can be shipped via different modes of transportation.
4. Whether there is variation in size of shipments and hence potential cost saving.
5. Is time -- in transit a predominant consideration in your traffic planning? This is particularly important when dealing with agricultural products, many of which are perishable.

6. Whether complicated rate situations exist on the major commodities received or shipped. The grain industry is a specific example of an industry in which rate analysis is a major function of the traffic department.
7. Whether the region in which your firm operates is characteristically short of such things as boxcars, shipping facilities, etc.
8. Whether your firm's sources of supply and market areas are extensive or distant. Local shipping, as distinguished from national and international shipping and receiving, has its obvious effect on the need for a traffic department.
9. Whether packaging, loading, and unloading problems are serious.

The above questions help to indicate the complexity and extent of the individual firm's transportation problem. After establishing the existence and extent of the transportation problem, the remaining variable deciding the status of a traffic department and the role it plays in a specific agribusiness firm is the professional competence of those undertaking the functions of the traffic manager.

Qualifications of Sound Traffic Management

Several characteristics are commonly associated with sound traffic management. Some of these are:

1. *A stress on the MANAGEMENT portion of "traffic management."* In past times the traffic manager was essentially a traffic technician who had to comply with the prevalent

mode, i.e., rail. However, a more competitive situation now exists whereby more mode alternatives are available to the traffic manager. This also presents the traffic manager with a complex challenge. As such, the manager is becoming less a specialist and more a generalist. For example, the manager must now be ready to not only decide from which common carrier mode to purchase the needed transportation service, but must be capable of evaluating decisions to lease equipment or to enter into company-owned transport.

2. *Familiarity with the complete production process.* Generally speaking, the cost of production can be logically broken down into those costs related to procurement, processing, and distribution. The competent traffic manager must have this knowledge of business logistics, or the "total look" of the flow of materials into, through, and out of the firm's production machinery. This knowledge of the production process can indicate potential trade-offs and conflicts between physical distribution, and physical supply and procurement, i.e., the farm supply firm mentioned earlier.
3. *Knowledge of the market, both product and raw material.* The role of the traffic manager no longer is to "save money by moving products cheaply" but is to improve the final product of the firm by increasing its availability, timeliness, and delivery quality, thus affecting the final market for the product. In the procurement of raw materials the traffic manager must be aware of all developments in this important

market that can affect the total distribution management in his firm, i.e., variety improvement can reduce the perishability of the raw material and hence affect the type of service needed.

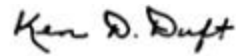
Summary

Transportation management is important to most agribusiness firms, including yours. The role of the traffic manager has changed from that of a shipping clerk to that of an executive officer with far-reaching responsibilities.

The value of a traffic department to an agribusiness firm is determined by 1) the complexity of the transportation requirements of the individual firm, and 2) the professional competence of the traffic manager and his staff. Qualifications commonly associated with competent traffic management are 1) a stress on the

MANAGEMENT portion of “traffic management,” 2) familiarity with the complete production process, and 3) knowledge of the market, both product and raw materials.

Finally, traffic management still requires a knowledge of rates and tariffs. However, for an agribusiness firm, successful traffic management must also encompass the mechanics of procurement, production and distribution in one decision framework.



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