

In September last year, Dennis Manns completed a 31-year association with American Honda, most recently as the Vice President of Sales and Logistics Planning, when he accepted the role of Chief Commercial Officer at Road & Rail Services. He spoke to Sam Ogle about his new company and issues affecting the automotive logistics industry.

Keeping it on the rails

Based in Louisville, Kentucky, Road & Rail Services provides a variety of vehicle processing services to a number of major OEMs including Honda, Toyota, Mercedes-Benz and BMW. Operating at many leading car plants, the company assumes responsibility for the vehicle as it comes off the assembly line and carries out a detailed quality inspection. Typically, Road & Rail Services is responsible for vehicle handling, accessorisation and for ensuring that such items as floor mats and appropriate drivers' manuals are placed in the car which is then taken to its first point of rest. Road & Rail has an extensive accessorisation installation programme that includes sound systems, navigation technology and various roof racks and light systems.

From there, the vehicles are either loaded onto trucks, railcars or, if it is an unassigned car, taken to a distribution centre to be assigned at a later date. So far, Road & Rail Services is providing the typical services of a US vehicle processor. There is, however, more to the company than that.

"The other half of the equation is on the rail side, whether for an automotive customer, one of the Class 1 railroads or

a short line, frankly anybody in the US that ships by rail," explains Manns. "The services we provide shippers include a variety of rail related services including rail car repair and the maintenance of the rail tracks within the customers' facilities. These tracks are not owned by the railroad but by the customer, so ensuring that the rail is up to specification or making alterations to the track layout to meet a customer's need is done by us. We do a great deal of rail repair, maintenance and installation for a variety of customers. We have a lot of automotive customers as well as others who depend upon our rail services. In addition, we handle a variety of commodity trans-loading services, such as coal and fertilisers. We have been recognised by a large number of OEMs and Class 1s with awards for our high level of performance in not only our automotive processing but our abilities to handle their rail services needs."

Two of the things that every OEM is looking for are getting their product quickly to market and in pristine condition. They cannot afford to have assets sitting around, adversely affecting their revenue flow. Manns quotes an

instance where Road & Rail Services was able to significantly assist one of its OEM customers.

“A major OEM had used a certain service provider for a number of years. However, things were not working out correctly; the layout of the process was poor, the design was poor and we, with the process we put in place, reduced their labour cost by half just by having a better process. We asked the customer where their pinch points were and what was keeping them up at night and we then redesigned the process. If you can reduce the touch points, your labour costs will be less and your damage rate will be far less.”

Given Manns’ experience working for both an OEM and a service provider he is ideally placed to comment on some of the issues affecting the automotive logistics sector today. One of those issues is the capacity of the railroads to handle the increasing volume of vehicles requiring transportation in the US. Asked if there is currently sufficient capacity, he replies that the quick answer is no.

“Even the railroads are coming to realise this. It is being driven by three factors. Firstly, the huge growth in the US automotive market. Secondly, the truck business has really grown and fewer units per railcar are being shipped. Thirdly, the continued growth of the Mexican automotive market which is stretching rail assets over a larger geographic area. What it comes down to is cycle time. Cycle time is the key phrase. The railroads have got to improve the cycle time to get a railcar returned to a plant and loaded again. This is probably one of the major things causing the OEMs heartburn; the cycle time has grown and continues to grow with the continued growth of the Mexican manufacturing facilities.”

The easy answer is for the rail companies to build more railcars, but this is far too simplistic. “Everybody has a chequebook limit,” says Manns. “One of the challenges for the railroads is that coal shipments have dropped significantly and are forecast to continue to do so. Oil shipments have also declined and these are two major revenue sources for the Class 1 railroads. Even with this said, I think the Class 1s are evaluating



the US automotive market but there are challenges from an economic standpoint. For the railroads, new equipment represents a 30-40 year investment.”

OEMs demand speed, damage reduction and protection of the brand promise. At the same time they pressurise service providers on rates. Has the time come, I wonder, for the manufacturers to accept that they can only push so far?

“I think we are seeing some of this already,” says Manns. “In life, you get what you pay for. Years ago, Sears used to have a sales campaign for their home products. They would have ‘good, better and best:’ you could buy a wrench or a screwdriver and there would be a good model, a better one and the best. As a young man without much pocket money you go for the least expensive one, which they called their ‘good’ model. After that product didn’t perform to your expectation, you realised you were wasting your time and that you had to spend a little more to get what you were looking for. A number of OEMs are



seeing that there is a limit to cost down and at some point there is a pinch point from a quality standpoint. I think some of the OEMs are understanding that, even with the cost down pressures, at the end of the day it's about getting the product to market on time and in good condition."

The other side of this particular coin is, of course, contract length. It is difficult to obtain finance for new assets which may be amortised in four or five years when your contract is only for two years.

"Regardless of the industry, if you provide a service there is a certain cost to you from a startup standpoint and that is a real number," says Manns. "The shorter the contract, the more difficult it is to recoup that startup cost. Also, you have to earn your keep every day. You are only as good as yesterday. Your performance is going to help you with your rates and your length of contract terms which are, without a doubt, invaluable to a service provider. In fairness to both sides, there is a kind of industry norm when it comes to contract length. If you are performing to the highest level and meeting and exceeding expectations your rate of success in renewal is extremely high. You will put a lot of pressure on the

people who aim low. Eventually, the OEM will say that those people are not meeting expectations. They may get the initial business but it's retaining and renewing that butters the bread."

Many service providers report a high degree of variability in OEMs' volume forecasting. This can often lead to imbalanced flows and under-utilised resources. Service providers are often granted improved access to production and sales data in order to optimise distribution planning but is this enough?

"This affects the car haulers most," says Manns. "There is an asset sitting there which is costing the car hauler regardless of whether it is moving or not. If an OEM has a product that is on hold or a product launch that is not released, the car hauler cannot make revenue. From an automotive processing standpoint, it is an issue, but it is a lesser issue because we are handling the product at the end of the production line. What we can't do is rail load it, so it does have an impact on our business.

"The accuracy of forecasting is relatively good, obviously it varies from OEM to OEM. The difference is the hold. Some OEMs have a higher frequency of holds and for some OEMs the length of the holds are longer than others. As a service provider, you know who has those issues and so, when you bid for the business, you know the frequency of those issues before you even walk in the door. The challenge for the OEM is to try

to manage and reduce that frequency.”

There is often a difference of opinion on whether environmental issues play a role when contracts are being negotiated. Obviously, no OEM is going to award a contract to a service provider that is manifestly making no effort to improve its performance in this area. Dennis Manns is one who believes that sustainability and environmental awareness are a part of corporate responsibility.

“It depends on the OEM but, from Road & Rail Services’ standpoint, it is the proper way to do business. It is either something you strongly believe in or you don’t. As a service provider, it has to be part of your corporate fibre and your people and your organisation need to understand the importance of it. At Road & Rail Services we are big supporters of environmental awareness and, if someone else is not, I’m not sure that is someone you want to partner with.”

Manns is very excited about the upcoming year. He is anxious to introduce a variety of new ideas to his new role. “This is a business that is always evolving. You have to keep your head up to identify these new challenges and keep your team ready and prepared to adapt to the change and opportunities. The automotive and rail industries are full of great people and exciting opportunities. Good is not good enough, better won’t get it done, Road & Rail Services is only looking for your best.” ■

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