

■ **DELIVERING ADDED VALUE:**
AN INSIDE LOOK AT THE DEVELOPMENT
OF CUSTOMIZED SOLUTIONS FOR
MICHELIN NORTH AMERICA /



U.S. XPRESS ENTERPRISES
SERVICE THAT MATTERS – DRIVEN BY INNOVATION

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Executive Overview

In 2006, Michelin North America began the process of re-evaluating its transportation support system for the company's manufacturing plant in Sandy Springs, South Carolina. At that time, Michelin had contracted with a leading North American logistics provider, and the tire manufacturer had also contracted with a separate service that provided drivers for the trucks to move raw materials into the plant. While they did not own the assets or actually employ the drivers, Michelin had essentially developed a privatized fleet. However, when compared to asset-based dedicated contract carriage options that were established in the market by 2006, Michelin discovered that the transportation system supporting the plant had proven to be both more costly and far less efficient.

As Michelin considered possible transportation bids for the Sandy Springs

operation, the competing carriers had to meet a significant challenge. Any new carrier would have to inherit the long-term lease on the refrigerated trailers used in delivering temperature sensitive raw materials to the plant. Of all the transportation providers pursuing the Sandy Springs contract, U.S. Xpress developed an innovative proposal that went beyond the focus of reducing costs and promoting greater efficiencies. U.S. Xpress earned a long-term contract from Michelin because the carrier had demonstrated it could offer the tire manufacturer a supply chain design that delivered a set of mutually shared value propositions. The cost savings and efficiencies put into place with the new contract benefited both Michelin and U.S. Xpress. As a result of the success of this supply chain design, the opportunities have expanded and the relationship has grown stronger between the two companies.

A Closer Look At Michelin's Logistics Challenges In 2006

Prior to going through the contract bid process, Michelin's Sandy Springs plant relied upon a supply chain system that required coordination among multiple entities. The logistics company provided a specified number of trucks and trailers, while the driver services company had an ample number of drivers for those assets. Due to the fact that production can fluctuate, the driver pool that contracted with Michelin was approximately 30 percent larger than typical production levels.

However, in order to increase its fleet size, Michelin had to pay a rental fee for additional assets. Therefore, it became somewhat costly to "flex up" the fleet size, despite the fact the driver services group provided the manpower

to handle the surge.

Beyond the hurdles of communicating with multiple entities to match drivers to

available equipment, Michelin had other challenges with its transportation solutions for Sandy Springs. Though the fleet was well maintained, the logistics provider had a preventive maintenance schedule in place that periodically pulled trucks and trailers from the available fleet and created down time for the drivers and, at times, it disrupted the supply chain.

U.S. Xpress further opened up the trailer pool by working with Michelin on designing a "live unload" process that drove \$350,000 worth of savings through the supply chain in 2008 alone.

"We would encounter situations where it was time to do a PM (preventive maintenance), but we also needed that truck and driver on the road," said Buford Hedden, Michelin's Truckload Transportation

Manager. “Along with creating issues with our production schedule, we incurred the cost of the maintenance. In reality, it was costing us in other ways as well. It was costing us to pull the truck from the fleet, and it was costing us with delays in getting the materials to the plant. We were ultimately paying for equipment and drivers that we could not use at various points.”

Another cost that Michelin incurred was related to insurance and accidents. Even though Michelin had engaged outside contractors to provide equipment and drivers, the tire manufacturer was named as a party to some large lawsuits related to accidents that took place during the transportation of the materials to the Sandy Springs plant. The subrogation of these lawsuits placed an additional layer of cost into the transportation process for Michelin.

“When we initially contracted with our

logistics provider, the deal fit our needs at the time, and it looked advantageous for the trends that we saw for the future. However, as the market changed and it placed a greater focus on cost and maximum efficiency, the contract that we had in place made it difficult to facilitate the

kinds of changes that would promote further savings and increased productivity,” observed Mr. Hedden. “As the contract approached its conclusion, we began looking at asset-based carrier options. Ultimately, we wanted our company to be in position where we could focus solely on our core competency.

We were seeking a transportation provider that would own all the issues related to transportation, and we were seeking a transportation provider that would partner with us to achieve cost savings in our supply chain.”

Another \$23,700 of savings per month was realized when U.S. Xpress, following its route optimization process, recommended that Michelin cut the trailer fleet by a total of 25.

Finding The Right Transportation Partner

As the Sandy Springs business went out for bid, the interested carriers discovered a significant hurdle. The new carrier would be assuming the lease payments on the refrigerated trailers that had been customized to carry raw rubber materials into the Sandy Springs plant. Most asset-based dedicated contracts are set up for a three-year period. However, under the terms of the lease agreement on the trailers, the standard three-year deal would place a new carrier in a position to pay approximately \$20,000 more per trailer. The reason for the additional cost was due to the difference between the lease agreement terms and the depreciated value of the trailers.

The trailer lease portion of Michelin's transportation equation added up as a loss for nearly every asset-based carrier pursuing the business. U.S. Xpress, however, presented some

new numbers and a different approach to Michelin.

“Obviously, the biggest roadblock for any carrier was the lease agreement that Michelin had in place. At the standard three-year dedicated contract, the carrier would

incur far too much cost on the depreciated trailer asset,” said Tim Guin, Vice President of Business Development for U.S. Xpress. “We really saw great potential for this business, and,

going into the bid process, we believed that we could develop a structure that would be advantageous for both U.S. Xpress and Michelin. So, in looking at the trailer situation, our financial team proposed an innovative approach and we presented Michelin with two extended contract options. If Michelin would agree to a five- or seven-year contract, the longer deal would offset the costs that remained on the trailer leases.”

U.S. Xpress has maintained an on-time service level of 99.5 percent or above for the past two years on the Michelin account.

Michelin was receptive to the extended contract that U.S. Xpress proposed. However, Michelin had a cost concern that the tire manufacturer asked U.S. Xpress to address. In an age of volatile fuel prices, asset-based

for fuel monthly on a direct pass through. In consideration of the longer contract, we would not employ a traditional surcharge. Rather, the variable cost in fuel would be based on the real cost of fuel for U.S. Xpress.”

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— Buford Hedden, Michelin North America Truckload Transportation Manager

carriers have established a fuel surcharge scale that is a standard part of all contracts. While it’s true that the fuel surcharge covers roughly only 70 percent of the amount that the carrier sees in additional fuel costs, it is a variable cost that any customer would prefer to control.

“We certainly respected their concern regarding fuel costs,” said Mr. Guin. “Again, this was another area where our financial team took an innovative approach to costing the business opportunity. We looked at the surcharge and then we looked at the benefits of a long-term contract. We proposed that fuel become a neutral cost, meaning that Michelin would pay

“We appreciated the willingness of U.S. Xpress to examine different aspects of the contract and to take a different approach that was advantageous for both U.S. Xpress and Michelin. None of their other competitors were willing to go beyond the norm in the design of the contract,” said Mr. Hedden. “We were very comfortable in what U.S. Xpress proposed, and we were quite confident in signing a seven-year contract with U.S. Xpress. Their work to date as our transportation partner has exceeded our initial expectations. It has truly become one of those ‘win-win’ propositions.”

Communication & Coordination: Keys To Driving Efficiencies & Improved Results

In an effort to achieve all the goals outlined in the company's proposal, U.S. Xpress assigned an operations support team to the Michelin account. Part of the new team worked on site at the Sandy Springs plant, communicating one-to-one with their counterparts at Michelin. The on-site presence, along with the back office support from the other members of the U.S. Xpress team, allowed the carrier to quickly identify areas for cost savings and greater efficiencies.

For example, the U.S. Xpress operations team noted that the outside plants serving Sandy Springs were holding trailers and causing drivers to make bobtail moves that ultimately resulted in

a complete round trip to pick up an empty trailer.

The outside plants were instructed to release the

empty trailers, speeding up the supply chain and reducing the empty miles cost at the same time. U.S. Xpress further opened up the trailer pool by working with Michelin on designing a "live unload" process that drove \$350,000 worth of savings through the supply chain in 2008 alone. These faster turns on trailers opened them for other opportunities in which

Michelin shared in the revenue.

Another \$23,700 of savings per month was realized when U.S. Xpress, following its route optimization process, recommended that Michelin cut the trailer fleet by a total of 25.

Due in part to the company's success handling the dedicated business, the U.S. Xpress regional group began hauling Michelin's finished product from the plant to car manufacturers, including General Motors and Chrysler.

The route optimization process also allowed U.S. Xpress to develop a new driver schedule which required fewer drivers and provided a higher level of overall service when compared to Michelin's previous provider. The new schedule was designed to highlight inbound and

“From day one, U.S. Xpress stepped right up and they did exactly what they said they would do. They analyzed our needs, developed more efficient processes and they allowed us to benefit from the savings that we partnered to put into place,” said Hedden. “The scope of work

“With Michelin, we had an opportunity to have an open dialogue with our prospective customer during the bid process. We learned about their business and we developed strategies that offered value, savings and increased efficiencies on numerous levels. The approach taken by U.S. Xpress and by Michelin established a level of trust before the first load was ever hauled.”

— John White, President of U.S. Xpress, Inc.

outbound information, establishing a strict set of accountability criteria. The increased flow of information and the changes along the supply chain not only delivered improved efficiencies, but it also served as the foundation for the level of on-time service which has been maintained at 99.5 percent or above for the past two years. Additionally, with the on-site presence and the coordination with the large truckload carrier's operations team, Michelin had ready access to additional capacity at any time it has been needed.

that U.S. Xpress has performed on our account goes far beyond the improvements we have seen in our supply chain. U.S. Xpress has literally gone the extra mile by doing the little things – such as working with our suppliers on their docks to reduce the instance of damage to our trailers. U.S. Xpress also set up weekly reviews for all the billing information, as well as monthly brainstorming meetings to examine possible additional cost savings opportunities. This has quickly become a valued partnership.”

Closing Thoughts: The Value Of Service

Perhaps the greatest compliment that U.S. Xpress earned for its efforts with Michelin came in the form of additional business. In 2007, the U.S. Xpress regional group began hauling Michelin's finished product from the plant to car manufacturers, including General Motors and Chrysler. Like its dedicated contract work with the Sandy Springs plant, the on-time delivery performance of the U.S. Xpress regional fleet has remained above 99 percent.

"U.S. Xpress takes great pride in being one of the leading transportation companies in North America. But, in working with customers, we understand that we must go beyond providing transportation solutions. We believe that the one commodity that separates us from our competition is service, and, specifically, the type of services that we can provide," explained John White,

President of U. S. Xpress, Inc. "I believe that our work with Michelin is a prime example of U.S. Xpress at our best. With Michelin, we had an opportunity to have an open dialogue with our prospective customer during the bid process. We learned about their business and we developed strategies that offered value, savings and increased efficiencies on numerous levels. The approach taken by U.S. Xpress and by Michelin established a level of trust before the first load was ever hauled. Part of our mission in delivering the commodity of service is to truly understand our customers' needs and to develop a solution that offers the best value for their investment with U.S. Xpress. We are very proud of the work that we have done with Michelin, and we believe that the approach we took with Michelin is a blueprint for responding to a customer's needs that can translate to a host of other industries."