

# The New Transportation Best Practice:

## Creating a “Carrier Collaboration” Program to Gain Control of Rates and Capacity

by Beth Enslow and Dan Goodwill

The North American freight transportation industry is undergoing major changes. Truck driver shortages, strong demand, record high fuel prices, and changes in hours of service have stretched truck and rail capacities and have caused increases in freight rates.

One result of this confluence of events is that the traditional adversarial, price-based shipper-carrier negotiation model is no longer effective. Rising freight rates and capacity shortages will make it increasingly challenging for shippers to meet their on-time delivery requirements.

Carriers are now in a better position than ever to leverage their capacity to those shippers who best meet their service and profitability requirements. These new realities are encouraging shippers to refine their transportation management practices. Based on our research, leading edge shippers are creating “Carrier Collaboration” programs to obtain control of rates and capacity.

As a starting point, it is important to understand the key elements of a motor carrier costing model and how this model is used to rank shippers. The four largest cost elements are pick up, dock, linehaul, and delivery costs. Other elements include claims, clerical, overhead, and accessorial costs for processing the transaction and providing additional customer value-added services.

The costing model produces an operating ratio (OR). OR equals direct expenses divided by revenue. Transport companies use this costing model to rank customers based on OR and business volume. Shippers with low volumes and high operating ratios are highlighted to receive the largest rate increases. Shippers with high volumes and low operating ratios receive the lowest increases.

During periods of tight capacity, even larger shippers with high operating ratios are being challenged by carriers to accept rate increases that are higher than in the past. They are also being challenged to

accept accessorial charges, or fees, for certain services (i.e., redeliveries) that were previously offered free of charge or at a reduced cost. To help shippers cope with these changes and adopt a “carrier-friendly” attitude, here is the first set of items that should be addressed.

### Developing a “Carrier-Friendly” Program

There are two major components to becoming “carrier friendly.” The first is creating a “carrier collaboration” program. The second component is making effective use of technology. Both are described below.

#### 1. Creating a “Carrier Collaboration” Program—Treat Your Carrier as Your Customer

The first step in making your freight attractive to your carrier is by understanding the carrier’s ideal requirements and making your freight match them as closely as possible. Some specific actions are discussed below.

##### *Make your freight easy to handle*

Carriers are looking for palletized, shrink-wrapped freight that is easy to load to maximize trailer cube utilization. Make sure your cartons have minimal internal “air space” to reduce cubic space occupied and resulting cost. Freight that can be loaded by forklift rather than via dock cart saves time and money. If you have good data on the average density of your freight, consider “no cube” rates to save the carrier time in having to cube your freight.

##### *Reduce the cost of pick up*

Your freight should be ready for pick up when the driver arrives. There are costs associated with keeping a driver waiting or having a bank of trailers in your yard. If you are going into a slow season and will not need the same number of carrier trailers in your trailer bank, call the carrier as soon as possible and advise him so he can use these trailers for other customers.

If your freight at time of pick up is go-

ing to exceed the amount called in to dispatch, notify the carrier as soon as possible. Calling in a pick up of three pallets and providing the carrier with eight, or asking the carrier to come back later the same day to make another pick up, only serves to increase your costs. If this is common practice in your company, consider changing your pick-up time or your fulfillment interval.

To be truly proactive, supply your carrier with your shipping forecasts on a regular basis. Capacity forecasts help carriers position assets and set schedules in a more economical way, and gives them time to arrange for subcontractors (i.e., cartage agents) during peak periods. Some companies are able to negotiate tiered rates according to fluctuations in volume.

Reassess your hours of operation and consider opening earlier. This could allow a less-than-truckload (LTL) carrier to miss rush hour traffic in large cities and make his deliveries and pick ups earlier.

##### *Reduce the carrier’s dock cost*

Freight requiring sortation on the carrier’s dock further increases a carrier’s cost. Make sure your freight and paperwork match. Ensure that your freight is well-labeled and well-packaged to reduce the chances of overages, shortages, and damages.

##### *Reduce the carrier’s linehaul cost—select carriers that most need your freight*

Reduce your costs by leveraging your freight with carriers who most need traffic to and from the locations where you require service and have the most schedules to those destinations. Also, keep an open mind to modal options. If you are able to negotiate more lead time with your customers and vendors, intermodal transportation may be a cost-effective option for truckload shipments moving more than 500 miles.


Look at all of your options, i.e., intermodal, private fleet, dedicated fleet, etc. Since linehaul costs are directly correlated with volume (number of shipments or loads), distance, freight density, and space occupied, help yourself by sharing this information with your carriers. Explore all options to pool freight either by sending out larger shipments on selected days or by combining your freight with freight from sister companies, subsidiaries, or even competitors.

##### *Reduce the cost of delivery*

Since your total freight cost includes the cost of delivery, be knowledgeable concerning the delivery procedures at destination. Work with your customers to reduce time and, ultimately, your cost-of-goods



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sold. During these times of tight capacity, driver-assist programs (e.g., drivers helping with loading and unloading), shopping mall, and residential deliveries are viewed negatively by some carriers since they reduce the number of deliveries that a specific driver can accomplish that day. Carriers very much appreciate if you can expand their "strike zone" and allow them some flexibility in performing their deliveries. With the high level of traffic congestion in major cities across North America, tight delivery intervals and penalty clauses do not build strong bonds with carriers.

If you ship to retail stores, check with your carriers to make sure that they have "tailgate" equipment, shorter length trailers, or straight trucks, and are interested in retail traffic. If so, they should be able to provide you with better rates than carriers who are less equipped to do so. Work with your carriers and customers to see if deliveries can be performed in non-peak (i.e., middle-of-the-night) hours when there is less traffic on the roads. To become more carrier-friendly, check to see if you can arrange for your customer to perform the unloading and sortation functions, or if a lumper service (temporary unloaders) can be engaged.

#### **Pay your carriers promptly**

Cash flow is important to every carrier. By paying promptly (in less than 30 days, or even better, within 15 days), you will certainly make your company more carrier-friendly.

### **The Three C's – Communication, Collaboration, Commitment**

Arrange a meeting with the president or VP of operations of your carrier to discuss

how you can work together more effectively. Once you have identified opportunities to work together, collaborate with him to reduce his costs and your rates. Be prepared to commit certain blocks of traffic to him on a daily, weekly, or monthly basis in return for a capacity commitment.

#### **2. Make Effective Use of Technology**

There are numerous actions you can take.

##### **Share capacity information with your carriers electronically**

Develop computer models of sales forecasts and freight capacity and transmit these forecasts to your carriers on a regular basis. A typical process will roll up demand by customer, by cartons, by shipping points, and by weight and cube into a capacity forecast.

##### **Speed up the tendering process**

Examine when your transportation system finds out about new orders. Look at reengineering your fulfillment process so that orders are sent directly from your order management system to your transportation management system (TMS) for processing rather than waiting for information from your warehouse management system (WMS).

##### **Minimize dock turnaround time**

Dock and yard management systems are becoming increasingly popular as shippers realize the importance of keeping carriers happy—which means keeping their drivers driving rather than waiting in line or stacking freight.

##### **Increase dock appointment flexibility**

Many companies are permitting carriers to self-schedule dock appointments on the Internet. To make these solutions worthwhile, you must have the discipline and supporting systems that enable you to unload or load carriers consistently within their scheduled appointment windows.

##### **Streamline border crossings**

Companies moving goods across borders, (e.g., Canada, Mexico, and the United States) should join the FAST program and automate their manifest filing process with customs to help carriers avoid border delays. For products that require FDA inspection, make sure you have a process in place to ensure that all customs paperwork is completed properly and all necessary numbers (i.e., IRS numbers) are provided.

##### **Use a TMS system to identify collaborative shipping opportunities**

Utilize the shipment planning capabilities of your TMS to ensure that it can identify collaborative shipping requirements.

##### **Automate carrier communications**

Automating the carrier communication process, from tender through tracking to settlement, lowers administrative costs for the carrier and for you.

##### **Speed up settlement**

Self-invoicing allows you to rate the bill of lading and pay the carrier according to the terms of the contract, upon proof of delivery, without receiving a carrier notice. This lowers the carriers' costs and speeds up cash flow since no paper invoices need to be produced or mailed.

##### **Centralize the contracting process**

Adopting one point of contact or one contracting entity in your enterprise for a carrier will minimize his carrier labor requirements. Creating a streamlined bidding process for carriers will make it less onerous for them to respond to your request for proposal (RFP).

##### **Adopt incentive-based contracts**

Provide prompt payment for carriers that meet on-time delivery, shipment status information quality, and other service standards. Accurate data on both sides is required to make this a reality.

##### **Implement 360-scorecards**

Investigate the ability of your TMS to support comprehensive scorecards across a number of metrics, such as dock dwell time, accessorial work for drivers, and changed orders. This data can be used to create action plans to improve your carrier friendliness.

### **Summary**

The major changes underway in the North American freight transportation industry are having a significant impact on truck and rail capacities, and are placing upward pressures on rates. Leading edge shippers are moving away from adversarial rate-based negotiations and are developing strategies to better understand the needs and costs of the carriers who provide service to their companies.

Shippers are looking at the cost elements of their freight transportation and are developing programs to better collaborate with their carriers. More advanced shippers are making effective use of technology to improve information flow, streamline processes, and reduce costs. ■



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