From a Shipper's Market to a Carrier's Market

Building Strategic Advantage through Integrated Transportation Management

By Jason Cook, Pierre Mawet, Jennifer Seeley
Over the last year, economic growth and recovery have catalyzed a shift from a shipper’s market to a carrier’s market in the transportation services industry. In 2009, owing to the global recession, shippers’ power in the carrier market reached an unprecedented magnitude. Volumes had shrunk, and carriers’ customers demanded lower landed costs for shipment of their products. The rapid ballooning of surplus capacity threatened many carriers very survival. In response, some carriers quickly shed excess capacity; for example, by divesting transportation assets. Others quickly restructured their pricing in an attempt to attract new business and fill their remaining assets. Some simply went out of business.
With the recovery, demand for shippers’ products has picked up again, and (correspondingly) shipping volumes are increasing across all modes, including air, rail, maritime and road. Shippers face tightened capacity associated with fewer trucks on the road, rising fuel prices and higher shipping prices as the surviving service providers become more selective about the freight they carry and the clients they serve.

As Figure 1 shows, there is a widening gap between shipment volumes relative to freight expenditures. In 2010, shippers’ expenditure on freight increased by 25 percent, while aggregate shipping volumes were only up by 14 percent from 2009, indicating that shippers are bearing a sharp increase in carrier margins.

This situation presents both a challenge as well as a unique opportunity for shippers. On one hand, carriers have begun raising their prices to take advantage of the stepped-up need for their services. Thus shippers will be challenged to contend with higher costs in addition to continued constrained capacity. But on the other hand, carriers are also hungry to capture new business and reestablish their top-line growth. Thus, savvy shippers have a window of opportunity to forge new and innovative transportation service arrangements in order to maintain strategic advantage over rivals.

To maneuver effectively within this unique set of conditions, shippers must view the situation through the lens of risk management. They will have to determine how best to manage their transportation spend and carrier relationships so they don’t end up overpaying for transportation capacity that they desperately need. And they must move quickly—because market conditions will continue to tighten, threatening shippers’ competitive position.

Shippers must start by assessing the true amount of control they have over the costs in their transportation network, and then adopt an approach that we call Integrated Transportation Management.
Do you know how much you spend on transportation?

Accenture's experience with clients has revealed that most companies have limited control over their entire transportation spend. The reason: Many components of transportation cost—such as inbound material, transfers, delivery and returns—are hidden in the supply chain, outside of the organization's control. With scant visibility into the total costs of transporting materials and products to customers, companies cannot effectively control costs amid volatile economic conditions. This is a growing concern, because transportation remains a primary cost driver for many companies. Indeed, our research shows that transportation represents upwards of $30-$60 million for every $1 billion in materials cost for product-based industries. Companies that don’t understand their full enterprise transportation spend can’t manage it effectively. By contrast, controlling freight spend can unlock considerable value for shippers, to the tune of a 5 to 10 percent improvement in operating income, and a 10 to 20 percent improvement in stock price. An opportunity of this magnitude translates directly into an opportunity to enhance shareholder returns, something that C-level officers and boards cannot afford to ignore.

To capture these kinds of gains, companies must become what we call supply chain masters. Such organizations know precisely how much they spend on transportation—by mode and category. They understand exactly where the hidden costs are lurking in their supply chain. And they know which levers to pull and when to pull them to control costs while also enhancing customer service. Armed with this capability, they have visibility and management control over the primary cost drivers in their supply chain needed to respond to marketplace changes that drive demand fluctuations. (See "Accenture's supply chain study."

Accenture's Supply Chain Study

Accenture surveyed more than 1,500 supply chain executives on the key capabilities they needed to master their supply chain, including fulfillment. We wanted to know what capabilities were critical to high performance in fulfillment. To that end, we identified a small minority of respondents that excelled at fulfillment, a group we refer to as "masters." We also identified respondents on the other end of the spectrum—"laggards"—whose performance in key fulfillment areas was worse than the sample as a whole.

In comparing capabilities of masters and laggards, we found a number of major differences in the way they approach their fulfillment and transportation operations. While several findings were expected and reinforced commonly understood "best practices," many others were not. These counterintuitive findings shed substantial new light on the importance of having excellent fulfillment operations and the key factors behind it. To learn more about the key capabilities needed to master your supply chain, including those related to fulfillment, visit www.accenture.com/supplychainmastery
The time to act is now

Figure 2. U.S. Gasoline and Crude Oil Prices

Shippers must act now to seize control of their transportation spend and position themselves for stability and growth. As the economic recovery gathers momentum, carriers’ transportation capacity will continue to fall short of demand. Additionally, while predictions on fuel and carrier prices vary widely, the one consensus is that prices will keep rising, as shown in Figure 2. These twin forces will put strong upward pressure on freight prices. Shippers have arrived at a critical point: They must contain increases in transportation costs and improve cash flows, or they will risk losing any savings they realized when the market was in their favor. Even more important, they may see their competitive position erode if they continue doing business as usual. Small improvements won’t be enough, because the competition is defining long-term strategies to excel on this very front.

Our research shows that the only way an organization can stay ahead of the pack is to establish an Integrated Transportation Management (ITM) program. By “integrated,” we mean a cohesive transportation strategy that is aligned with the company’s overall business objectives.

When executed effectively, ITM can drive down transportation expenses and free up savings to fund investments for growth, improve customer service and mitigate risk. Companies that master ITM will achieve competitive advantage in industries where success hinges on efficient logistics. The reason: ITM enables them to manage the high proportion of operating costs tied to their transportation activities.

Specifically, ITM positions companies to achieve savings in two primary ways; first, by improving overall network performance in terms of metrics such as on-time delivery and customer satisfaction, and second, by aggregating and eliminating freight movements. For large manufacturing-based companies, initiatives intended to improve overall network performance can help reduce freight expenses by as much as 15 percent or more. Consolidating and eliminating freight movements can drive an additional 10–15 percent reduction in transportation costs, and significantly reduce network distribution expenditures such as materials handling and delivery. These improvements can translate into increases in a company’s operating income by as much as 5 – 10 percent.
To lay the groundwork for their ITM program, executives must ask questions about the operational factors driving their transportation needs and overall strategy. These include the following:

• “How is our company’s transportation network structured?” For example, do you have a centralized network, or are distribution locations regionally disbursed? The structure of your network will drive decisions related to how transportation should be organized to support your business.

• “How are our operating units currently managing transportation?” For instance, is transportation managed independently by each of the business units, or is it integrated? These situations will drive decisions related to how transportation should be organized to support your business.

• “What portion of our transportation spend is under our direct control?” If you can’t identify and account for all the elements of your spend, or if you notice that spend is disproportionately high relative to competitors, these are warning signs that you need to take action to manage down freight costs.

• “Is our transportation network (inbound, outbound, inter-facility) managed holistically?” If so, your company may have a central management function providing transportation services across the business. If not, you may find it difficult to remain agile enough to adjust your transportation services to meet evolving business needs.

• “How competently is our organization managing its various transportation activities?” Signs of trouble in the form of unnecessary costs may include excessive service fees, carrier charges and costs associated with excess shipments.

Armed with insights from exploring these questions, companies can then define their ITM program. The process comprises three steps that, when executed as part of a cohesive strategy, deliver the competitive advantage shippers need in today’s volatile world:

1. Assess your overall transportation spend, then score quick wins in transportation activities such as routing and delivery efficiencies, mode shifting, rate arbitrage, load consolidation and freight sourcing. Quick wins generate immediate savings that can be used to fund strategic investments. They also build momentum for further change.

2. Establish an enterprise-wide transportation management program to synchronize transportation services, enable greater network visibility and manage freight spend.

3. Integrate and automate planning and execution functions to optimize your transportation network and drive ongoing efficiencies.
Let’s look at each of these in turn.

1. **Assess your transportation spend and score quick wins**

Leading companies look for easy-to-implement initiatives, in every area of their transportation operations, that help reduce logistics costs, thus freeing up cash that can be used to fund strategic investments and mitigate business risk. To illustrate, in the area of local routing and delivery, a company can optimize its dedicated transportation network through static/dynamic routing, determining optimal frequency of local deliveries to maximize driver, vehicle and cross-dock utilization. The results could be a 10-20 percent reduction in operating expenses for local delivery services. Figure 3 shows additional examples of quick-win opportunities.

When implemented and managed effectively, quick-win initiatives drive significant upfront savings that the company can then use to support the larger Integrated Transportation Management strategy, through the funding of enabling tools (such as tracking or transportation management systems) and other investments. An organization can also use its quick wins to continuously improve its operating activities, thus ensuring that transportation strategy remains aligned with changing business needs.

---

**Figure 3. Quick-win opportunities**

<table>
<thead>
<tr>
<th>Area</th>
<th>Opportunity</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Routing and Delivery</td>
<td>Optimize the dedicated network through static/dynamic routing, determine optimal frequency of local deliveries to maximize driver, vehicle and cross-dock utilization.</td>
<td>10-20% OpEx reduction in local delivery services.</td>
</tr>
<tr>
<td>Load Consolidation and Backhaul Utilization</td>
<td>Consolidate loads or shift freight to less expensive modes of transportation (TL/Dedicated/Private Fleet). Utilize available backhaul capacity for inbound freight.</td>
<td>5-15% savings on inbound freight. Eliminate inbound cost for addressable vendor locations.</td>
</tr>
<tr>
<td>Freight Sourcing (TL, LTL, Parcel)</td>
<td>Establish optimal carrier rates through strategic transportation sourcing and accessorrial management.</td>
<td>8-24% savings on spend by mode.</td>
</tr>
<tr>
<td>Freight Contract Management</td>
<td>Build a sustainable network through the use of creative contracting to secure capacity and service at preferential rates. Audit parcel spend for contract savings and efficiency opportunities.</td>
<td>5-10% savings on contracted freight spend.</td>
</tr>
<tr>
<td>Freight Term Conversion</td>
<td>Optimize inbound freight terms with major suppliers (FOB origin, freight collect), and increase freight under management to leverage optimal carrier rates.</td>
<td>20-40% savings on inbound freight spend, full cost recovery on outbound services.</td>
</tr>
<tr>
<td>Fleet Optimization</td>
<td>Optimize vehicle asset utilization for private fleet (tech to vehicle ratios), while reducing spend on operating costs (levelized vehicle replacement, national maintenance and repair strategy, etc).</td>
<td>5-10% reduction in fleet asset base, 10-20% reduction in maintenance and repair costs.</td>
</tr>
</tbody>
</table>
2. Establish an enterprise-wide transportation management program

Once a company launches quick-win initiatives, the next step is to establish an enterprise-wide transportation management program. We recommend first aggregating the enterprise’s transportation activities into a central management function—a Transportation Management Center (TMC). The TMC should offer a standard set of services (such as carrier management and execution support) and support the infrastructure necessary to deliver cost-effective, reliable transportation across the business. The TMC can reside in-house if a company has adequate staff, processes and systems capabilities. An organization can also outsource this function. Regardless of where TMC activities reside, planning and execution functions must be synchronized through process and system control. And operations should be actively managed to ensure that they align with changes to the business.

An effective core carrier management program is a fundamental element of a TMC. Savvy carrier management supports strategic transportation procurement, by enabling shippers to leverage aggregate volumes to establish favorable rates, accessorials and tariffs when sourcing transportation services in the market. Once a carrier management program is in place, shippers can work directly with freight service providers to unlock savings opportunities through means such as shipment planning, mode shifting, zone skipping, lane/route optimization, load consolidation and improved dedicated vehicle utilization.

Figure 4 shows examples of the opportunities available for capture through enterprise-wide transportation management.

<table>
<thead>
<tr>
<th>Area</th>
<th>Opportunity</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation Network Optimization</td>
<td>Optimize transportation services, locations, costs and service levels within the distribution network. Assess savings opportunities associated with direct distribution of materials.</td>
<td>10-20% cost reduction through structural change to transportation locations and services.</td>
</tr>
<tr>
<td>Core Carrier Compliance Management Program</td>
<td>Implement compliance management program with core carriers and service providers. Establish KPI’s to actively manage and audit carrier performance against targets to reduce freight costs.</td>
<td>3-5% incremental savings through managed carrier compliance.</td>
</tr>
<tr>
<td>Supplier Rationalization and Compliance Management</td>
<td>Evaluate network for insource vs outsource capabilities and savings opportunities. Source and implement logistics provider(s) to acquire leading functional capabilities.</td>
<td>2-10% reduction in inbound freight costs for supplier rationalization.</td>
</tr>
<tr>
<td>3pl/4pl Selection and Implementation</td>
<td></td>
<td>Savings vary by business and capabilities outsourced.</td>
</tr>
</tbody>
</table>
3. Integrate and automate planning and execution functions in your transportation network

Once they have established an enterprise-wide transportation management program, supply chain masters continue to drive value and efficiencies through integrating and automating planning and execution functions in their transportation network. Many companies begin by defining services their TMC will deliver and aligning functions at various levels of the organization (local, regional, national, global). For example, transportation execution services may require alignment between a centralized carrier management team and managers of local operations. Shippers can then use integration to optimize transportation processes and synchronize planning and execution activities. To illustrate, companies can use advanced analytics to inform their transportation planning process and drive more efficient execution. Through automated shipment planning and what-if scenario modeling that takes into account real-world constraints, the shipper can conduct comparative analyses across modes to drive operational standardization and efficient capacity utilization. The result could be a 2-17 percent reduction in annual freight spend. Figure 5 shows additional examples.

Figure 5. Transportation integration and automation opportunities

<table>
<thead>
<tr>
<th>Area</th>
<th>Opportunity</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation Planning and Advanced Analytics</td>
<td>Automated shipment planning, and what-if scenario modeling given real-world constraints. Comparative analysis and planning across modes to drive operational standardization.</td>
<td>2-17% reduction in annual freight spend.</td>
</tr>
<tr>
<td>Transportation Audit and Control</td>
<td>Establish systematic audit and controls. Automate freight payment and cost allocation to reduce, or eliminate, freight bill transactions costs and processing errors.</td>
<td>1-5% reduction in annual freight spend.</td>
</tr>
<tr>
<td>Transportation Execution</td>
<td>Integrated transportation sourcing modules enable frequent negotiations and cost reductions associated with volume based rate reductions. Partner with carriers for network optimization.</td>
<td>5-20% reduction in total freight spend.</td>
</tr>
<tr>
<td>Continuous Improvement</td>
<td>Automate repetitive tasks and manage by exception. Improve visibility of shipments and &quot;inventory in motion&quot;, and provide access to shipment rates. Integrate systems to capture internal and external performance metrics, monitor carrier performance, and manage real-time transportation activities. Utilize transportation systems to drive management decisions and ongoing network optimization.</td>
<td>2-7% reduction in annual freight spend. 1-3% reduction in annual freight spend.</td>
</tr>
</tbody>
</table>
Next steps

Business conditions are in more flux than ever. As a result, shippers face a moving target in striving to get products to customers without overspending on transportation services. Hitting the target will never be easy. But by taking an integrated approach to their transportation management, shippers can sweeten the odds of success. The three-step process we’ve outlined above—assessing transportation spend and scoring quick wins, establishing an enterprise-wide transportation management program, and integrating and automating transportation systems—can help.

But just as speed is critical to getting products to market, it’s also essential for surmounting the challenges and capturing the opportunities presented by today’s uniquely complex and fast-changing transportation services scene. Shippers must act now to establish Integrated Transportation Management as a key competitive weapon—or risk being left behind by nimbler rivals.

About the Authors

Jason Cook is a Senior Executive in Accenture’s Supply Chain Strategy practice with 15 years of experience designing and implementing logistics transformation programs, including strategic transportation management and a national load control center for Telecommunications carriers. He graduated from the University of Puget Sound with a BA in Business Administration and Finance. He also holds an MBA from the University of Montana. Based in Denver, Colorado, he can be reached at jason.h.cook@accenture.com.

Pierre J. Mawet is a Senior Manager in Accenture’s Supply Chain Management service line. He focuses on helping companies design and implement supply chain strategies in fulfillment, logistics, distribution and transportation, inventory management, and asset management. Based in Dallas, Texas, he can be reached at pierre.j.mawet@accenture.com.

Jennifer Seeley is a Senior Manager in Accenture’s Supply Chain Management service line with 11 years of supply chain experience. Her focus includes integrated fulfillment, logistics technology, and strategic transportation management. Jennifer has a BA in Logistics from John Carroll University and an MBA from The Ohio State University. Based in Cleveland, Ohio, she can be reached at jennifer.e.seeley@accenture.com.
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 211,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$21.6 billion for the fiscal year ended Aug. 31, 2010. Its home page is www.accenture.com

About Accenture Supply Chain Management

Accenture Supply Chain Management consulting services help clients across a broad range of industries to develop dynamic supply chains by aligning operating models to support business strategies, optimizing global operations, and enabling profitable product launches. Committed to helping clients achieve high performance through supply chain mastery, we combine global industry expertise and skills in supply chain strategy, sourcing and procurement, supply chain planning, manufacturing, product design, fulfillment, and service management to help organizations transform their supply chain capabilities. We collaborate with clients to implement innovative consulting, technology and outsourcing solutions, and enhance the skills and capabilities of the supply chain workforce. For more information, visit www.accenture.com/supplychain.

References

1. Cass Information Systems, Morningstar