



OPPORTUNITIES WHERE TRANSPORTATION MANAGEMENT SYSTEMS CAN RAPIDLY REDUCE COSTS

INTRODUCTION

Maintaining competitive advantage in today's demanding business environment requires continual process improvement and cost reduction. Many companies focus on transportation in an effort to control supply chain costs and help ensure timely shipments. Recently, however, effective transportation management has become more complex due to several industry trends:

- The rise in cost for fuel, insurance and drivers
- The capacity shortage in truck-based transportation that has led to an environment in which companies have to get "service at any cost"
- Consolidation/attrition in transportation provider industry
- Increasing customer service pressure
- Regulation and security changes

Given these trends, companies involved in distribution often look to transportation management systems (TMS) to automate and reduce the costs associated with getting products to their destination. According to industry analysts' reports, it is generally accepted in the market place that TMS systems can reduce costs by up to 30 percent.

1 – CONTRACT MANAGEMENT

(Estimated 10% reduction in current administrative cost)

Contract management gives you the ability to accurately record all transportation service provider contracts in a single, central repository and easily access and incorporate updated rates. This is a foundational element that should not be overlooked as a required step in achieving transportation savings. Contract management is also an administrative function where accuracy shows positive downstream results. Maintaining accurate rates prevents many costly errors in subsequent processes from carrier selection to freight payment. Simple to use, accurate electronic administration of contract rates with a full audit trail of all activities translates into the ability to accurately calculate the changes for each shipment.

Freight audit and Payment program - Freight audit, payment and duplicate invoice protection can be an accounts payable challenge. The variable elements of contracts and billings make it literally impossible to properly audit a bill for accurate payment in most traditional accounts payable systems. Studies show that the internal costs to properly audit and pay a manual freight bill can be in excess of \$10 per invoice (See Attached). The cost justification of a TMS freight payment application is further enhanced with an estimated 2-4% cost savings found in the reduction of billings from the combination of auditing and duplicate invoice protection.



2-OPTIMAL LOAD & ROUTE

(Estimated 5 - 17% reduction in annual freight expense)

In today's environment reducing transportation cost requires finding greater efficiencies rather than simply working to extract deeper discounts from transportation providers. Load optimization is a sure way to generate savings without causing disruption in your carrier base. As optimization technology has advanced, it has become accessible to a much broader market than ever before. This means even smaller shippers can now take advantage of the savings created through optimization.

In the past, creation of a manual transportation plan relied on individual knowledge and experience to combine orders into shipments. Because of the time-consuming nature of reviewing the many potential combinations of orders, a simpler solution based on generalization was always preferred. The process of manually building loads often sends far too much freight Parcel and LTL and overlooks the savings potential in creating cost-efficient, multi-stop truckloads. Additionally, automated optimization can free valuable resources from the time-consuming process of manually building and adjusting loads. This time can be spent on value-added activities such as reviewing carrier performance and proactively working toward higher levels of customer satisfaction.

3-LEAST-COST MODE/CARRIER SELECTION

(Estimated 2 - 7% reduction in annual freight expense)

The selection of a least-cost carrier can yield savings without adversely affecting customer service. Selection of a least-cost carrier does not mean lowering service standards. It often means being more aware of service requirements as well as historical carrier performance. The development of a carrier price/performance ranking is key in implementing an effective least-cost carrier selection process. The carrier base should be reviewed by each major traffic lane and a ranking developed that clearly expresses the order of preference for the carriers in each traffic lane based on a combination of best price and service.

4-SHIPMENT EXECUTION

(Estimated 1 - 5% reduction in annual freight expense)

Automation in the shipment execution process can yield significant savings in a variety of ways. Shipment execution is often the most time-consuming area for traffic management staff. Freeing time in this area through the automation of repetitive tasks often helps drive greater savings in many areas.

Automating the tendering process will yield savings greater than a simple reduction in staff time spent "dialing for diesels." Automation of tendering helps ensure routine conformance to a least-cost carrier selection program. The automation of a tendering process also means carriers receive complete, accurate information on tendering shipments the first time, every time.



A manage by exception environment can extend well beyond the tendering process. Because of the ability to easily connect electronically to the entire carrier base, in-transit tracking can provide visibility to exceptions- often in advance of lapses in customer service requirements. The ability to monitor pick-up/ delivery performance at each stop allows for proactive intervention when a shipment is falling off schedule. In many cases, this advance visibility to performance exceptions allows for proactive customer notification and avoidance of the perception of poor customer service due to information, from schedule through delivery, available to all vested parties in your organization. Customer service and sales personnel can have self-service Web pages that allow them to easily inquire about order status without disruptive and time-consuming phone calls to the traffic department.

5 - INFORMATION MANAGEMENT

(Estimated 1 – 3 % reduction in annual freight spend)

Performance Improvements thru Information Management - The ability to manage performance has always been dependent on the ability to measure performance. In the fast-paced, resource constrained environment of today's businesses, too often performance measurement has fallen by the wayside as an activity too time consuming to formalize as a process.

One of the major benefits of a TMS system is automation in the gathering of key performance metrics. The system records these metrics in real time as the shipping process takes place. The ability to measure both internal and external performance can provide a 360-degree perspective on performance required to ensure strong focus on correction and improvement activities. Measuring customer costs to ship can be as important as the ability to accurately access carrier performance. This may require accurate measurement of the performance of locations in optimizing proper mode and carrier selection as well as the loading and unloading process. The easily measured late shipment to a critical customer may be the result of poor carrier performance in-transit. But it can just as easily result from an up-stream location that has poor performance in loading/unloading. Conversely the selection of the wrong mode to meet customers' demands can have a significant impact to the overall profitability of that customer. The ability to move these types of events out of subjective measurement and into a fact-based environment provides the ability to take meaningful and effective corrective action.