LTL Purchasing Best Practices: The 10 Essentials for LTL Efficiency and Cost Reduction

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Introduction

At first glance, LTL purchasing seems like a straightforward process. And many shippers and 3PLs treat it as such: Some companies lump LTL purchasing with their other purchases in an attempt to optimize their purchasing or procurement software. Many rely on personal relationships with LTL carriers and the ubiquitous spreadsheet as their purchasing “tools of choice.” Still others manage their bids with time-consuming, inefficient online auctions or generalized software and business processes that only provide generalized rate discounts.

These LTL purchasing approaches appear to save money in the short-term. But they also introduce financial and operational risk into the organization. A truly successful LTL bidding process is data-driven and, depending on the carrier selected, has vastly different financial outcomes for shippers, 3PLs and their customers. A well-executed bid process also helps to optimize the organization’s supply chain and transportation planning processes and cement core carrier relationships.

This white paper explores the best practices 3PLs and shippers can take to optimize their purchase of LTL services, support strategic and operational goals, reduce financial risk for themselves and their carriers, assure financial gain, and secure solid customer and carrier relationships.

A Brief History of LTL Purchasing

Just a decade ago, LTL purchasing was the bailiwick of organizational and third-party traffic managers. These transportation professionals sought and secured resources based on a simple analysis, gut instinct and a handshake, using established relationships with a cadre of core carriers. Manual bid quote preparation and analysis took weeks or even months. They used no bid automation, benchmarks, standards or established base rates for weighing their options or for measuring the financial results of their LTL purchases.

The maturation, growth and automation of the transportation industry have brought transportation-related processes into the mainstream, though, keeping pace with an expanding global supply chain. American business has become more astute and sophisticated, driven by specialized purchasing activity. Executive management is well aware that transportation costs represent an increasing portion of overall manufacturing costs, so in many cases the transportation purchasing function has been transferred to the finance or purchasing side of the business.
Current Market Drivers Impacting LTL Purchasing

The past two calendar years were lucrative for the U.S. 3PL industry: As a whole, the industry earned revenues of $122 billion in 2007 (a 7.2 percent uptick from the $113.6 billion revenue of 2006). During this same period U.S. GDP grew 6.1 percent in 2006 (2.9 percent in chained 2000 dollars) and 4.9 percent in 2007 (2.2 percent in chained 2000 dollars).

For their part, carriers experienced relative excess capacity from 2006-2007, as their industry continued to consolidate. A May 2008 Morgan Stanley report projects that the sub-segment LTL trucking market will accrue moderate market gains in the future: Estimated market size (revenues) for regional LTL is $25 billion and national LTL is $8 billion, while publicly-traded LTL carriers’ long-term revenue is projected to grow 5-10 percent for regional LTLs and 0-5 percent for national LTLs.

In 2008 U.S. GDP is expected to grow less than two percent, though, as the U.S. trucking industry continues to undergo profound changes, affected by spiking fuel prices, fluctuating labor costs and exchange rates, the falling dollar, import/export shifts, limited manufacturing repatriation, and continued downward pressure on carrier prices and relative excess LTL capacity. Each of these changes deeply affects shippers’ and 3PLs’ LTL purchasing and operational strategy, as well as purchasing power.

To compound market and pricing complexity, SupplyWatch.com (Ariba) observes that some apprehensive shippers “… have even gone as far as to say that consolidation has had a direct impact on how they select a carrier [and] are not comfortable using regional services offered by large national carriers because of concern with having too much freight being serviced by one carrier. Continued slow GDP growth will continue to put pressure on prices and demand within the trucking industry.”

In response to this upheaval, some shippers and 3PLs are revisiting their supply chain strategies and efficiencies. Others closely inspect contract renewal, negotiation and consolidation, or opt for having contracts managed by a lead logistics service provider (LLSP). Still others aim cost-trimming initiatives directly at reducing truck mileage. By shifting from a “hub and spoke” approach to more point-to-point shipping, they are reducing miles traveled and the number of times the freight is handled. Some carriers are shifting from a just-in-time model to a price/service model. Others are beginning to employ innovative tactics with their

“Pricing is going up and [shippers and carriers] need to prepare for that. … If they are not prepared for it they will be in trouble, because this is something that is going to shape profitability of all companies for the next 3-5 years.”

Jon A. Langenfeld, Transportation Analyst, Robert W. Baird & Company
shippers, exploring, for example, how to change air freight to ground expedited freight to lower cost while maintaining the specifications within the service level agreement.

The growing freight regionalization trend may also prove important for shippers and carriers over the next several years. Morgan Stanley further notes “... evidence of reduced haul lengths and freight regionalization.” This trend creates opportunities for freight purchasers: Regional LTL service requirements challenge LTL carriers’ cost structures in very different ways from their national counterparts. By understanding these differences—and by using LTL purchasing best practices that effectively organize LTL freight data points to leverage them—shippers and 3PLs can make savvy purchases and partner with the best carrier for the geography.

**Consequences Of LTL Purchasing Mismanagement**

LTL purchasing is a full-fledged, highly visible business process for many successful shippers and 3PLs. These organizations adopt best practices and standards to improve their service offering, assure that their LTL agreements match their strategic and operational goals, establish relationships with a core carrier group and secure capacity. As a whole, though, today’s LTL purchasers certainly walk a fine line to meet the needs of both their organization and their customer base, balancing fiduciary responsibility for transportation costs, including pressure to capture short-term gains, with the need to secure guaranteed service levels, capacity and operational efficiencies. Despite these overall concerns, many shippers and 3PLs still “shop discounts,” trying to optimize their LTL shipping spend based on this single criteria. But this approach ignores base price variations and totally misses the pricing advantages they can gain by analyzing the totality of minimum charges, FAKs (freight-all-kinds) and other carrier pricing practices. For their part, many carriers continue to maintain their own base rates and pricing structures. A transportation purchaser comparing bids based on multiple tariffs will find it virtually impossible to get a complete view of what he or she is buying, let alone to compare the bids on a head-to-head basis. And when submitting a bid response, carriers can have difficulty providing their best options and mitigating their own risk.
By forgoing a competitive LTL bidding process and ignoring important financial and operational criteria, many shippers and 3PLs have found that short-term financial gains introduce weighty risks for all parties:

**Hidden Financial Risk: Overspending through lack of planning**

According to a 2008 *Purchasing Magazine* article, shippers who switch carriers for lower rates almost invariably change lanes back to the original carrier immediately—an expensive proposition, in terms of routing changes as well as the customer experience. Many companies also lack a clear sense of the myriad bidding options and best practices available to them and are unaware that the costs for correcting service degradation, errors and quality problems from poorly executed bids most often far exceed any price savings achieved through a manual bid process. With poor LTL purchasing practices in place, larger bids can be particularly financially draining for shippers, 3PLs and carriers alike.

**Hidden Service Risk: Focusing only on price**

Without LTL purchasing best practices in place, shippers and 3PLs can inadvertently choose the wrong carrier or purchasing approach and introduce unnecessary hurdles within various links of their supply chain. These mistakes can have moderate-to-severe operational and financial repercussions, ranging from excess capacity and shipping dock waste to business disruption, service degradation, supply chain breaks and ultimately undermined profits and corporate credibility due to poor service.

**Hidden Resource Misuse Risk: Ignoring opportunity costs**

There are several opportunity costs hidden in manual/spreadsheet-driven LTL purchasing bids, often requiring man-weeks, rather than man-hours, of bid preparation time. Unfortunately, manual bids also drain valuable logistics and IT time, as high-level personnel are integrated into the bid process, rendering them unable to spend time on core business activities—a major concern for higher-level management in many 3PLs.

**Relationship Risk: Creating business risks for carrier partners**

Without aligned business processes between carriers and their shipper/3PL partners, business risks emerge for carriers. According to a Norbridge Associates report and interviews with pricing experts at a U.S. carrier specializing in national and international freight, the following LTL bidding constraints and problems both directly and indirectly force carriers to be more conservative in their pricing (e.g., set higher prices and lower discounts) to mitigate their financial risk in a potential relationship:

**Inadequate, missing or inaccurate information.**

Missing historical shipment data, inadequate shipper descriptions of freight class, weight and volume; the inability to set discounts at a micro level on base rates (such as by lane and direction); and the inability to price to take into account destination-specific issues (for example, ordinances and regulations or increased cross-border administrative fees) all have dramatic affect on carriers' operations and business outcomes. A tiny calculation error based on misinformation from a shipper or 3PL can make a large difference in the carrier's cost calculations and margins.
Contracts requiring a single discount or limited number of tiered discounts across very different moves. This contract request creates cross-subsidies and risks to carriers if the mix shifts.

Incomplete or hampered communications. Unlike strong relationships, where communications are ongoing through multiple communications channels, weaker relationships lack transparency and proactive information sharing.

Decisions by non-transportation personnel at shippers and 3PLs. For better or worse, shipper and 3PL marketing and purchasing departments sometimes make decisions—without their transportation department’s input—that change shipping parameters and affect their organization’s transportation plan. Ultimately, the carrier is the one who must adjust to the shipment change.

Shipper and 3PL inability to manage pricing complexity. Shippers and 3PLs who have purchased a TMS without fully exploring possible freight complexity can be trapped by their information system network. Some TMS systems are very flexible in the types of carrier data they will accept; others are very inflexible. Some shippers and 3PLs have the ability to change the TMS to acquire all the flexibility they need; others do not, or must rely on their IT department for assistance.

Counterproductive operations/productivity initiatives: Transportation departments can be held back by their plants’ operational and productivity initiatives and benchmarks (TQM initiatives, etc.). These interrelation-ships, if not properly understood prior to conducting a bid, can negatively impact possible LTL savings.

New security regulations. International freight traffic to Mexico and especially to Canada now incorporates administrative and document handling fees that must be factored into carriers’ margins, or they lose time and money at the border.

Benefits of Applying LTL Purchasing Best Practices

LTL purchasing best practices draw from both transportation trade expertise and purchasing practices, enabling a cost-conscious purchaser to make their best LTL choices without deep transportation expertise. Most importantly, successful shippers and 3PLs share their vision with their carriers, using a decision support approach and a combination of data standards, base rates, data mining and bid automation that enable all parties to alleviate risk and succeed. With access to actionable data both 3PLs and shippers can prepare, monitor and analyze their best purchasing options, and prospective carriers can offer up service and pricing agreements that accurately represent their operational costs and strengths.

A number of significant benefits emerge when carrier and shipper/3PL business processes are linked by technology, common data views; shared understanding of goals and objectives; and accurate representations of carrier responses including qualifications, transit times and pricing:

Getting Beyond the “25 Percent Rule” to Actionable Data

Decentralized shippers and 3PLs often struggle with mining their own data. Without LTL purchasing best practices in place, industry experts estimate that only 25 percent of the data shippers and 3PLs provide to carriers is actionable, helping the carrier make informed, accurate bidding decisions and serve their client in the best way.
Eliminating Risk and Uncertainty

Best practices let LTL purchasers easily compare carrier rates on thousands of criteria, save scenarios and rate, save and re-rate their bids quickly and efficiently. For 3PLs, LTL purchasing best practices can be integrated into bidding processes to provide a valuable, standardized way of doing business and leveraging volume for their company, with pass-along savings for their customers. Carriers can submit bids according to their own best practices, so their price offerings are expertly matched to the RFP’s stated requirements for carrier transit times, special handling capabilities, locations served and technology provided. “Intelligent prompting” during the bidding process ensures that no details slip through the cracks and helps consolidate carriers, improving supply chain efficiencies, modifying specific carrier contract terms and enhancing relationships with core carriers.

By automating RFP distribution and carrier bid collection, LTL purchasing best practices also:

- Remove the bid data analysis burden from IT and logistics personnel, allowing them to regain their productivity for higher value-added activities.
- Empower required shipper/3PL personnel to analyze bid responses jointly, regardless of their office location.

Using Information for Mutually Rewarding Relationships

Effective shippers and 3PLs look at their long-term business goals to work closely with select carriers, who are, in turn, confident that the pricing they are providing corresponds with their rating systems and the way they organize their data, which reflects a to-the-penny scenario. Successful partnerships count on dedicated, problem-solving “go-to” carrier personnel and constant communication and information sharing (via email, monthly and quarterly meetings, and phone calls) to conduct the LTL purchasing portion of the business. These flexible relationships enable the carrier to become a trusted advisor.

Fundamental LTL Purchasing Best Practices

Most shippers and 3PLs are trying to save what they view as a reasonable chunk of money on their manual or rate modeling LTL bid by using standard operating procedure; they haggle a bit, perhaps reducing a 5.9 percent price reduction to 3 or 4 percent. This is an opaque approach because the carrier they are negotiating with may not specialize in the freight lanes being discussed, forcing a higher-than-necessary rate scale.

In contrast, a best practices bid provides the perfect opportunity to assure the right carrier mix, leverage the full volume and accrue significant savings. (LTL best practices bids become even more important when the shipper or 3PL has undergone major business change, for example, integrating new carrier companies with their own, unique LTL carriers or switching from a primarily domestic shipping model to an international shipping model.)

Applying best practices in LTL transportation purchasing effectively automates the process, minimizing the time it takes to manage the complexity of generating, issuing, administering and evaluating the bid. The natural result: big LTL savings.
The 10 Essentials for LTL Cost Reduction

Cleary defined bid objectives, mandates and supply chain change requirements:
Pre-bid supply chain and customer analysis helps best practice LTL purchasers define strategic bid objectives (e.g., reduce costs or number of carriers, change the supply chain, get goods to market more quickly, address freight challenges within certain geographical areas, etc.) and align their bid process appropriately.

Quality shipment data reflecting all LTL movements over the past 12 months:
Data entry errors happen, even for large shippers and 3PLs, so pre-bid data cleansing and accurate commodity descriptions are a critical best practices tool for successful LTL bids.

Carefully selected question groupings as bid package framework:
LTL purchasers succeed when they align themselves with carriers who fit their shipping profile. Questionnaires that collect and display carrier data on financial performance, customer service, IT quality/capabilities, exact fleet size and type of equipment all help to structure a successful RFP.

Logical carrier selection based on pre-defined objectives and requirements:
By having too many carriers, shippers and 3PLs create carrier-management problems for themselves and can’t leverage their volume as a result. In this step, the purchaser revisits Step 1 bid criteria to assure logical carrier selection.

Reasonable carrier response deadlines:
Rushing to complete a bid assures not only errors, but automatic bid process failure. Carriers need a clear review period and realistic deadlines to assess their own capabilities, pose questions and provide detailed, effective bid responses.

Diligent bid analysis for optimal pricing and service scenarios:
During due diligence—the most important step in successful bid analysis—LTL purchasers draw on rich functionality to analyze both hard and soft data, establish service level agreements (SLAs), conduct sensitivity analyses and perform reference checks on prospective carrier partners.

Face-to-face negotiations with all carriers remaining in contention:
In-person meetings with a director of pricing or pricing analyst let the LTL purchaser see the carrier’s level of commitment, professionalism and interest; discuss the service map; and explore detailed carrier capabilities prior to competition and re-bidding.

Well-written, universally adopted corporate routing guides:
A corporate routing guide optimizes freight allocation and removes excess shipping costs. Best practices incorporate electronic shipment-level detail from all carriers and routing guide rules into a central database, treating rules as companywide shipping mandates; employing weekly or daily shipment data imports; and cross-referencing shipment data against the routing guide rules for reporting purposes.

Personal meetings with senior operations personnel of each contracted carrier:
Meetings with senior carrier operations personnel establish solid working relationships and facilitate implementation planning, routing guide review and contract signing.

Mutually understood criteria and measurements for evaluating carrier performance:
With every bid certain carriers overbid and under-perform. Step 10 creates a methodology and metrics for explicitly stating shipper or 3PL expectations, measuring effective carrier performance, and proactively alerting carriers if they are underperforming, to spur timely corrective action.

Adapted in part from Goodwill, Dan, “How to run a successful freight bid,” Canadian Transportation & Logistics magazine, March 2006
The Technology Solution

When looking for an LTL purchasing best practices solution, be sure to consider the following:

Accurate Carrier Service Information

A best practice LTL purchasing solution provides accurate, up-to-date carrier information on specific origin and destination bases, so purchasers can make thoroughly informed decisions.

Multiple Scenarios

Manual or rate-modeled bids cannot compare complex LTL shipping scenarios, so they are not effective bids. Look for a best practice solution where your LTL bids are “transparent.” The LTL purchaser can make the best choice, and is free to rate, save scenarios and re-rate their bids.

Process Sharing Across the Enterprise

Whether your organization works in decentralized offices or incorporates traveling or remote logistics or purchasing decision makers, seek a best practice tool that enables the group to share bid information and make strategic, best practice LTL purchasing decisions when they need to, to expedite the purchasing process.

Leveraged Volume

Look for a strategy that will enable you to organize your data and visualize opportunities to leverage your volume. Carrier pricing analysts examine your organization’s freight flow characteristics to understand the regional and lane basis and then match their operational and strategic needs with appropriate pricing modifications. Seasonal transportation trends, market segments of consignees and how the bid matches other carrier needs must all be presented for analysis and leverage.

Proven Market Expertise and Experience

A solutions provider who has extensive knowledge of LTL purchasing best practices, understands the subtle aspects of optimizing
bids, and who has a variety of customers and a proven trade sense about LTL pricing is essential. These unique qualifiers ensure the vendor can help you get your purchasing practices up and running effectively, based on your enterprise needs.

*Integration with Enterprise System or TMS*

In LTL purchasing best practices, carrier pricing agreements map to a shipper or 3PL’s enterprise system or TMS. Many carriers have discovered that a best practices bid provides enormous breadth of “information discreetness,” so they can cover any possible scenario—from tiered FAKs to complex discounts by weight break.

*Smart Business Model*

According to a recent report on the North American 3PL market, lenders may become more selective in a “down economy,” perhaps choosing to put their money into companies with smart business models—including the increased ability to handle large-scale projects or enter new geographical markets when their customers do, or to proactively invest in distribution centers. Smart business models incorporate tools that provide flexibility to adjust LTL spending at will.

*About SMC³*

SMC³ provides trusted LTL products, services and support to shippers, 3PLs, carriers, consultants and over half the FORTUNE 500. The best practice SMC³ Bid$ense® product enables our customers to conduct successful, collaborative strategic bids.

*Take The First Step*

Contact the SMC³ subject matter experts at 800-845-8090, ext. 5588 or bidsense@smc3.com to learn more about the SMC³ solution for applying best practices to your next LTL bid.
Information Sources


   (The bureau defines “chained U.S. dollars” as indexed for inflation.)


   July 7, 2008 (American Machinist cites the recent Buyer MFGWatch survey: “… 38 percent of international buyers surveyed are currently sourcing to U.S. suppliers … 53 percent of Canadian buyers surveyed revealed that they too are sourcing to U.S. suppliers.)


8. In an increasingly data- and margin-driven transportation world, standards assure best-possible outcomes for the transportation spend (over three-quarters of the 50 largest U.S. 3PLs already use standardized base rates for decision support).


