

Dynamic Carrier Selection

Delivering On The Promises of Procurement Technology

White Paper

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Problem

The Difference Between Lowest Negotiated Rates And Actual Rates Paid

Logistics professionals work in a dynamic environment with constant pressure to drive down transportation costs while improving service. To reduce costs, many shippers use a bid process – attempting to reduce costs by negotiating lower rates with carriers.

While the promise of bids is savings of 5-10%, often more than half of that opportunity is lost because the best carrier for a lane does not always move the freight. The differences between lowest negotiated rates and actual rates paid can ruin a budget.

Why The Difference

At the end of the bid process, shippers compile routing guides based on newly negotiated rates. While the guide rates are valid, the shipper only realizes savings from the negotiation process if they become the actual rates at the time daily carrier selection is made - that is, the best rate on file becomes the rate under which the load is booked.

Two related problems cause the gap between lowest negotiated rates and actual rates paid. The first is that load planners don't have an easy and efficient method for determining the best carrier for every load they manage. The second obstacle is that there is no efficient method, and often not enough time, to handle re-tendering when a primary carrier rejects a load. Recent studies have shown that primary carriers reject tenders from 5 to 35 percent of the time, depending on the lane.

Lacking an automated routing guide, load planners must rely on thick 3-ring binders to find their primary carrier. Binders are cumbersome and, given the constant change typical of transportation operations, difficult to maintain.

When a primary carrier refuses a load, load planners must scramble to rebook loads over the phone – a process that often provides freight to their favorite carrier, or the carrier who always covers the load (but for a higher price), rather than the next best carrier. Seldom is there time to offer the load to more than a handful of carriers in an attempt to get a better rate, and only rarely can the load be offered to all qualified carriers.

You Haven't Saved Money Until the Rubber Hits the Road

The bottom line is that unless the newly negotiated rate is the actual rate under which a load is booked, rate negotiation hasn't saved any money. How bad can it be? A sample lane between Boston, MA, and Chicago, IL, is shown in Figure 1.

In this example, the shipper had an initial best rate of \$0.95/mile. After a formal bid, the new best rate was \$0.88/mile. The shipper therefore expected to save \$0.07/mile on 300 shipments per year. At 1,000 miles/load, the expectation of savings was \$21,000 per year on an original cost base of \$285,000 (300 loads x \$0.95/mile x 1,000 miles), about 7.4%.

Figure 1: The cost of rejected tenders:

| | <u>\$/Mile</u> | <u># Lds Accepted</u> | <u>Total Cost</u> |
|------------------|----------------|-----------------------|-------------------|
| Carrier 1 | \$0.88 | 193 | \$169,840 |
| Carrier 2 | \$0.91 | 43 | \$ 39,130 |
| Carrier 3 | \$1.02 | 41 | \$ 41,820 |
| Carrier 4 | \$1.26 | 9 | \$ 11,340 |
| Carrier 5 | \$1.28 | 11 | \$ 14,080 |
| Carrier 6 | \$1.45 | 3 | \$ 4,350 |
| Totals: | \$0.94 | 300 | \$280,560 |
| Forecast: | \$0.88 | 300 | \$264,000 |

Lane: Boston to Chicago
 Freq: 300 Shipments/Yr
 Miles: 1,000

When the rubber hit the road, the primary carrier only hauled 64% of the loads. The shipper was able to cover the remaining loads with its backup carriers, but incurred significant cost to do so. In this case backup carrier rates consumed **79%** of the savings expected from the bid.

Dynamic Carrier Selection (DCS)

Because of the time pressures typical of transportation operations, the daily load assignment process must be automated to maximize realized savings. *Dynamic Carrier Selection (DCS)* is technology used to optimally assign freight to carriers on a daily basis. It addresses the complex needs of shippers with numerous contract rates on file and a wide variety of daily capacity situations. DCS closes the gap between lowest negotiated rates and actual rates paid.

Shipper Issues

DCS technology addresses the following issues:

- Who should the primary carrier for a lane be?
- How can core carrier usage be increased?
- What is the best tendering strategy to use given the rejection of an initial tender?
- What should the tendering sequence be?
- How much time should carriers be given to respond?

In response to the push for lower rates, carriers are being more selective about which loads they take. In recent years, carriers have invested in sophisticated profitability software that tells them which loads to accept and which to reject. This has led to a higher rate of load rejection, particularly by the largest truckload carriers. Shippers cannot afford to be at a technological disadvantage to carriers, and in order to maintain optimal cost levels, they must counter with technology of their own.

On the back end, DCS technology provides reports on carrier accept/reject statistics. This information is important at carrier negotiation time – a low rate is only good if the carrier has capacity available.

Carrier Issues

Dynamic carrier selection does not work if it is just another way to beat down carrier rates. Carriers will simply choose not to participate (one of the primary causes of the failure of transportation exchanges). Carriers do not want to operate in environments where the price of every load is negotiable and their service is commoditized.

In contrast to the exchange model, DCS technology is a tool to drive usage of core carriers. Cost savings do not come from use of the cheapest and riskiest carriers, but rather, from optimal use of core carriers.

Solution Technology from Clicklogistics

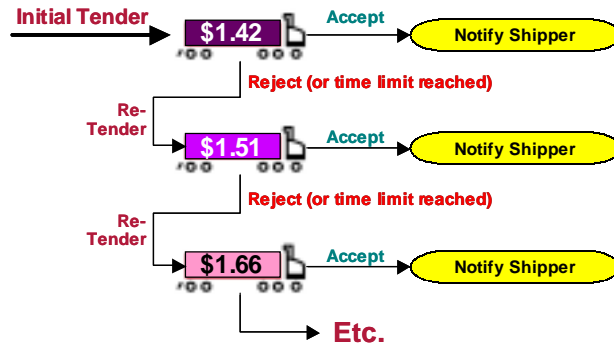
Through its Dynamic Carrier Selection (DCS) technology, Clicklogistics gives shippers the ability to automate and proactively manage real-time load tender, response, and award to ensure that paid rates are as close as possible to the lowest negotiated rates. Clicklogistics' solution provides several options for managing the process.

Priority Tender

Priority Tender automates the tendering process in a manner whereby loads are offered to carriers in the sequence that is optimal for the shipper. Load planners can prioritize their load tenders and dictate how long carriers have to respond (see Figure 2.) This insures that if a primary carrier refuses a load, it is quickly passed to other core carriers in a predetermined sequence (based on

cost and/or service) until the load is covered. Tendering is automated – there are no phone calls to make, and the system notifies the planner when the task is complete.

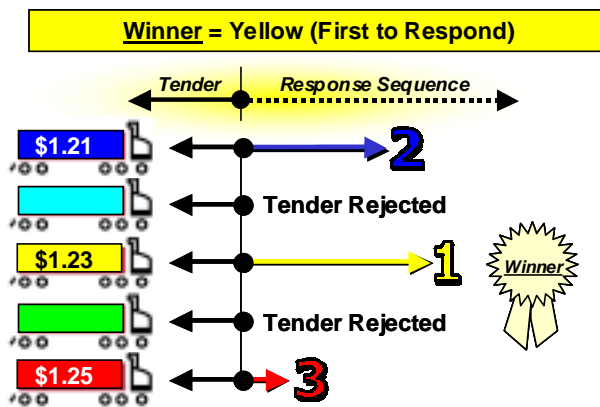
Figure 2: Priority Tender from Clicklogistics:



Mass Tender

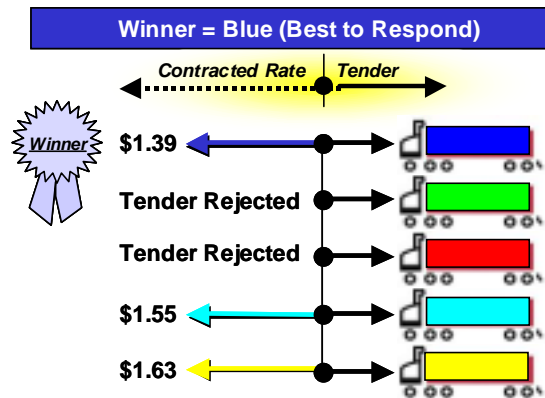
Mass Tender automates load tendering to a large group of carriers simultaneously. Shippers use either of two rules for awarding freight through Mass Tender; *First to Respond*, or *Best to Respond*. In Figure 3a, Mass Tender is used in conjunction with the “First to Respond” rule. Orders are tendered to a group of pre-selected carriers. The first carrier to accept the tender wins the freight (in this case, “Yellow”). The system then cancels the tenders that were sent to other carriers. The “First to Respond” rule is suited for situations when time is critical, when capacity is tight, or, when rates for alternate carriers are close to rates for the primary carrier.

Figure 3a: Mass Tender from Clicklogistics, using the “First to Respond” rule:



In Figure 3b, Mass Tender is used in conjunction with the “Best to Respond” rule. The tender is sent to a pre-selected group of carriers, each with a time limit for response. When the time limit is reached, the accepting carrier with the best rate on file is awarded the freight, and all other tenders are cancelled.

Figure 3b: Mass Tender from Clicklogistics, using the “Best to Respond” rule:



Business Value

The business value of DCS technology comes from

- Cost savings from the reduction of rogue buying and from optimal carrier selection.
- Cost savings from a reduction in the amount of labor needed to find carriers.
- Better carrier service through a higher percentage usage of core carriers and a reduction in the use of brokers.
- Better service to a shipper's customers through quicker and more reliable access to high-quality carrier capacity.

Lower Total Cost-of-Ownership

Clicklogistics provides quick Return On Investment (ROI) while minimizing Total-Cost-of-Ownership. As a premium feature of its transportation management system (TMS), DCS can be purchased as a stand-alone component or as an add-on to the standard package.

Clicklogistics' TMS (called Clicklogistics Online, "CLO") is a hosted solution – accessed via the Internet. There is nothing to install and no hardware to purchase. There are no upfront license fees - the system is sold on a subscription or transaction basis, and implementation fees are nominal.

Shorter Time-to-Value

While DCS technology transaction costs vary based on volume, payback is always immediate. For example, on a single 500-mile load, using DCS to save just \$0.03 per mile provides payback of 2 to 10 times the cost of the technology. Our launch customer realized payback within the first week of using the software.

Summary

Logistics professionals work in a fast-paced environment. Planners rarely have the time or resources to make optimal carrier selection. Carriers have invested in profitability technology that reduces their costs but complicates shipper operations by increasing the frequency of load rejections. In addition, carrier failures and the driver shortage have driven capacity out of the industry, making it more important for shippers to regain control by investing in technology to automate the dynamic carrier selection process.

Clicklogistics offers DCS technology with very low upfront cost and quick return on investment. To find out more, call 1-866-254-2556 or visit www.clicklogistics.com.

Appendix

About the Author

Area Of Expertise

Wilson Rothschild is a leading supply chain consultant and free-lance writer who focuses on business applications and models. His primary experience is in supply chain, logistics, international trade, warehouse management systems and eCommerce applications. Wilson focuses on a wide variety of issues including Net-native apps, Net-based transportation and fulfillment, yield management, global distribution, and collaborative sourcing technologies.

Previous Experience

Prior to being an independent consultant, Wilson was a research analyst/advisor for META Group, a leading IT think tank, where he advised G2000 companies on vendor and software selection for transportation, warehousing and international trade applications. Prior to being an advisor, Wilson spent several years in supply chain software and transportation operations positions. At i2 technologies, Wilson was responsible for marketing i2's logistics applications offerings. Additionally, while at i2, Wilson was part of the initial product development and implementation team that brought the Carrier Bid Optimizer Application to market and was directly responsible for implementations for leading shippers like Home Depot. In an operations capacity, Wilson has also held logistics operations positions at Reader's Digest and Matlack Inc.

Education

Wilson holds a B.S. in Logistics from the Smeal College of Business at The Pennsylvania State University and a joint masters degree issued by the Wharton and Moore School of Engineering at the University of Pennsylvania in Technology Management.

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