Managing Freight in a Tight Capacity Market

7 bold steps shippers should take to ensure freight capacity in a seller's market

A KANE Viewpoint

Truck capacity has historically been viewed as a commodity. The onus has been on the carrier to position itself as the customer's "carrier of choice."

But if you haven't noticed, that's changing. The combination of a growing U.S. economy and the chronic truck driver shortage is turning freight into more of a seller's market, requiring shippers to examine how they can become "shippers of choice" for carriers, who are now more selective about the loads they haul.

Carriers Are Under the Gun

To fully understand the genesis of the shift to more of a seller's market, freight shippers must understand the operational challenges carriers now face:

- Driver turnover rates are approaching 90% and the driver shortage in the U.S. is predicted to hit 175,000 by 2024, according to the American Trucking Association (ATA).
- Warehouses are being located close to consumers, reducing length of haul and cutting carrier revenues
- An increase in intermodal is cutting into productive long-haul runs
- Hours of Service rules and measurement of HOS compliance on mandated electronic logging devices threaten to reduce driver productivity up to15%
- To retain drivers, carriers must design less efficient routes that allow drivers to get home more often

This all adds up to what the ATA estimates is 25% less miles per truck – a pretty scary statistic to any fleet owner. As carriers adapt to this new reality, shippers must adapt as well or risk supply chain failures linked to a lack of reliable capacity.

This eBook suggests 7 bold freight management strategies shippers can consider to create as much certainty as possible in a very uncertain freight market.

HOS RULES AND THE ELD MANDATE COULD DECREASE DRIVER PRODUCTIVITY UP TO 15%

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1 Put an End to the Yearly Freight RFP

That's right, just stop it.

The annual, lane-by-lane rate shopping RFP is the freight equivalent of speed dating – only without the goal of finding a long-term partner.

Why are these annual pricing exercises out of step with today's freight market? *Because they don't actually serve their intended purpose of saving money.*

There is a distinct financial advantage to forging long-term relationships with a select group of carriers, despite the widespread believe to the contrary. Here's what the speed daters are missing:

- **NETWORK EFFICIENCY.** Longer term contracts give carriers time to mine for customers in the area to create a network with minimal deadhead miles. Carrier costs for empty miles can range from $2 to $3 per mile. This inefficiency is baked into the rate. Shippers who don't allow carriers to build network efficiency never see the positive cost impact.
- **BETTER SERVICE.** When you work with the same carriers, even the same drivers, over a long period of time, relationships develop with consignees. Carriers understand how these consignees like to receive freight, and personal relationships develop that can mitigate problems. For instance, better service can result in fewer late-delivery fines, or a retailer might expedite the receiving process for a known carrier before detention charges kick in.
- **BETTER RATES.** That's right, better rates – without the yearly freight RFP. Typically if it's a 3-year deal, let's say, the rates are locked in for the contract period. And smart carriers may even reduce rates as they build lane density in order to solidify the partnership.

Instead of playing the speed dating game with a succession of short-term, tactical partners, smart shippers are finding out that the cost benefits of long-term, strategic carrier relationships are superior to those gained from rate shopping exercises.

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2 Leverage Regional Carriers

Regional carriers do a better job than national trucking companies at attracting and retaining drivers because they can offer steady, day runs that get drivers home every night. That's a huge recruiting advantage in a competitive market for drivers.

Other advantages of regional carriers:

- Guaranteed capacity
- More personal brand of service
- Wider time windows for pick-up and delivery
- Next-day service
- Consistent drivers for improved service and happier customers

Bottom line: Know who the top regional carriers are in your key distribution markets and discuss with them how to align your networks for mutual benefit.

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3 Reduce Driver Turn Time

New hours of service limits for drivers magnify the importance of faster driver turn times at pick-up and delivery locations. If the receiving or loading docks at your distribution centers are congested, tying up truck drivers for hours, carriers are less likely to service you. Simple as that.

Derek Leathers, President and COO of Werner Enterprises provided this candid assessment during an interview with TranzAct Technologies:

"We can't price in 10 hours of inefficiency on both ends of a load because we will lose the driver regardless of what we pay him…. If we don't feel a shipper has a committed plan of action, we and other carriers move those assets to shippers who have earned those assets due to their actions (to become more shipper friendly)."

Here are things you can do right now to address this critical issue:

- **Establish Drop and Hook Programs.** This allows drivers to just drop and go. Smaller retailers struggle to set up a drop and hook system, either because they don't have adequate dock doors or don't have the shuttle tractors to move trailers to and from the dock. These DCs may wind up on the wrong list as carriers brand certain locations as unfriendly drop points.
- **Monitor Truck Detention Time.** Carriers are certainly noting how long their drivers spend on your property. Shouldn't you be doing the same?
- **Set Appointment Times.** This presents other challenges to the carrier, but most carriers are happy to oblige if it means trucks move in and out of a DC with great efficiency.

Minutes really do matter to carriers operating under new HOS rules. In locations where driver delays are chronic, carriers will opt for more driver-friendly delivery points .

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4 Be More Flexible

The driver shortage and other capacity-limiting forces are transforming the relationship between shippers and carriers. For shippers, the approach to carriers is no longer *"Here's my freight. Take it or leave it."* Forward-thinking freight departments are looking inwardly and instead asking *"How can I make my freight as attractive as possible to the right carriers?"*

The answer to that question involves some aspect of flexibility.

A few examples:

- Extend delivery windows to allow more flexibility in scheduling and more efficient routes
- Offer night pick-ups, decreasing your carrier's time stuck in traffic, and increasing the chance of your load being handled as a backhaul after the carrier's afternoon delivery.
- Ship on off-peak days, when demand is lower, to maximize your carrier's asset utilization.
- Work with your carrier to develop shipping schedules that work best for you, your customer AND your carrier.

Freight shippers are not used to the idea of seeking a dual benefit with a carrier when arranging a haul. But it's a necessary mindset change in this freight environment. By getting closer to carriers, you learn how to maximize their efficiency, while at the same time getting your loads handled.

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5 Co-load Freight with Other Shippers

A KANE survey of freight professionals at 100 mid-sized companies found that their top transportation challenge was the necessity, due to lower volumes, to ship in higher cost LTL shipments.

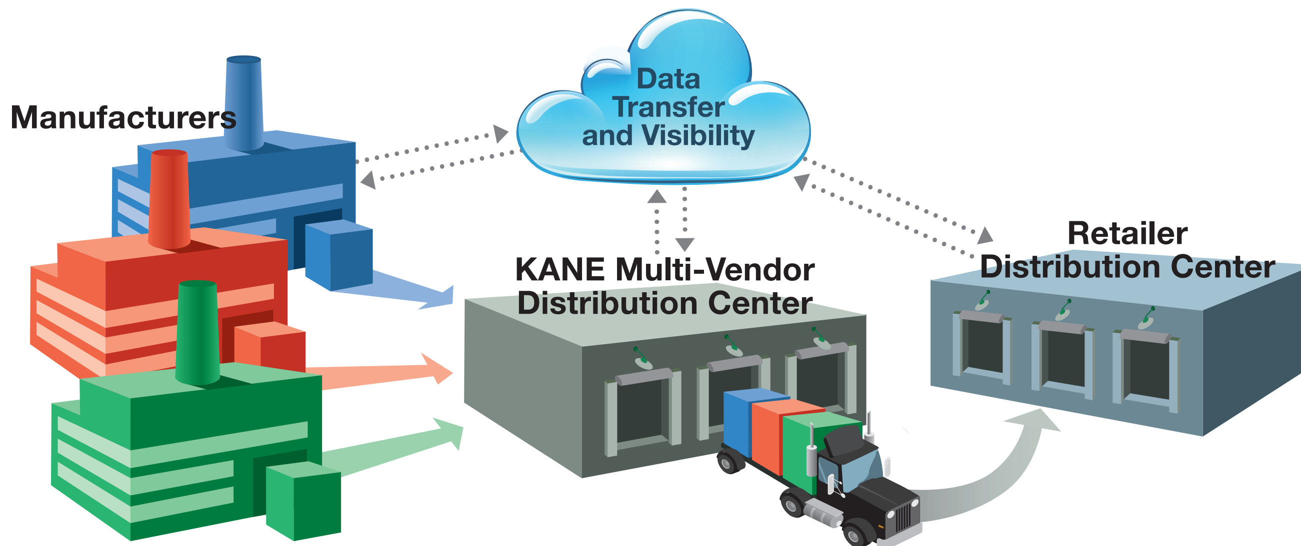
One solution to this challenge is consolidation of loads with other retail suppliers that ship to the exact same retail distribution centers. Yet the same survey showed that 73% of companies do not consolidate loads, either through their own efforts or those of a 3PL partner.

3PLs that offer retail consolidation services can help reduce LTL costs over 20%, just by consolidating freight from multiple customers to create lower cost, truckload shipments. Shippers save not only from a lower-cost shipping method, but also from sharing that cost with co-loading partners.

Shippers need to stop viewing their supply lines in isolation.

Mass transit, shuttle buses, rideshare programs – these are modern society's solutions for moving PEOPLE when all those people are going to the same destination. Load consolidation can do the same for products, driving down costs, taking trucks off the road, and reducing carbon emissions.

When freight managers think "we" instead of "me," big savings are possible and capacity is easier to find.



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6 Choose Carriers with Lower Driver Turnover

Let's face it. This has not been a key criterion on any shipper's list of carrier requirements. But it needs to be.

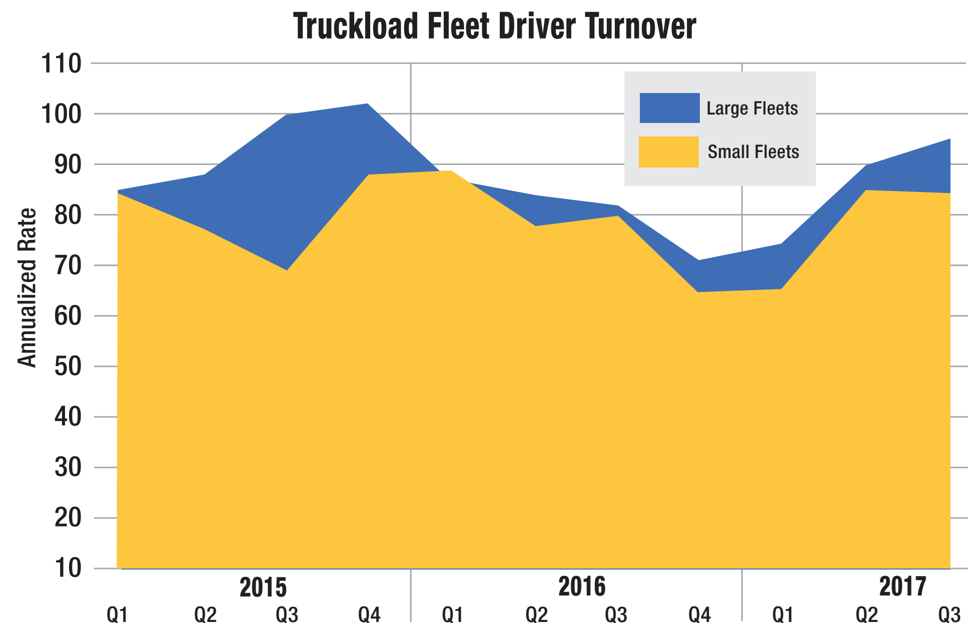
It's become commonplace for carriers with available equipment to turn down loads because they lack drivers. So, it stands to reason that your capacity plan should consider the ability of your key carriers to retain drivers.

The accompanying chart shows the industry average driver turnover rates for large and small fleets – around 87%, according to Transport Topics. That's as close to a revolving door as you can get.

Ideally, you want carrier partners whose turnover is well below this average. Why? Because consistent drivers:

- are more productive – they know the routes and receiving processes at consignees
- make fewer rookie mistakes
- deliver superior on-time performance
- represent you well with important customers

Over time, shippers come to view long-time drivers as part of their own team, getting to know them on a first-name basis and relying on them as the backbone of an efficient distribution process.



Source: Transport Topics http://www.ttnews.com/articles/driver-turnover-rises-slightly-remains-healthier-year-ago
Large Fleets defined by TT as $30M or more in annual revenue

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7 Rely Less on the Spot Market

In the U.S., markets rule. As businesses vie for customers, the resulting price competition yields a better price for the buyer.

That's certainly the assumption with spot market freight. But current freight trends suggest shippers would be better to deemphasize spot market sourcing and focus more on development of closer, contractual relationships with a select group of carriers.

Contrary to popular opinion, dedicated freight contracts can drive superior savings over time.

- Steady, predictable freight gives carriers time to mine for customers in the area to minimize deadhead miles. While the spot market often yields an attractive deadhead rate, the same result could be achieved with dedicated carriers, who then share cost efficiencies with you.
- On a 3-year deal, the rates are locked in for the contract period. In a fluctuating freight market, that could result in real savings, depending on how the market moves.

OFFERING CONSISTENT, PREDICTABLE FREIGHT MAKES YOU A CARRIER'S *PREFERRED* SHIPPER, RATHER THAN A ONE-OFF SPOT MARKET SHIPPER.

Close carrier relationships yield other financial advantages that are not directly reflected on a P&L.

- Guaranteed capacity, eliminating the time involved in freight sourcing
- Reliable performance, sometimes hard to sustain with unknown carriers
- Predictable rates, making it easier to plan and budget
- Happier customers, who appreciate carrier reps who know their products and procedures

Freight shippers have fed off the spot market for years as a means to control costs. But in a tight capacity market, there is huge value in building close, collaborative carrier relationships. When fighting to ensure capacity, those relationships count for a lot.

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Old Habits Must Change to Achieve Freight Sourcing Success

The combination of a growing economy, a dwindling driver supply, and tighter hours of service restrictions have transformed freight sourcing from a buyer's market to a seller's market.

This shift will require shippers to change their sourcing strategies in very fundamental ways. Some companies, particularly those that have traditionally viewed freight capacity as a commodity, will struggle with this level of change and, as a result, put their companies at risk.

The winners will act boldly to forge more collaborative partnerships with carriers as they position themselves as "shippers of choice."

About KANE

Kane Is Able is a third-party logistics provider that helps manufacturers and their retail partners efficiently and effectively distribute goods throughout the U.S. KANE operates a nationwide distribution center network and a large truckload fleet for dedicated and regional transport needs.

Looking for ideas to make your retail supply chain work better?

LET'S TALK

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