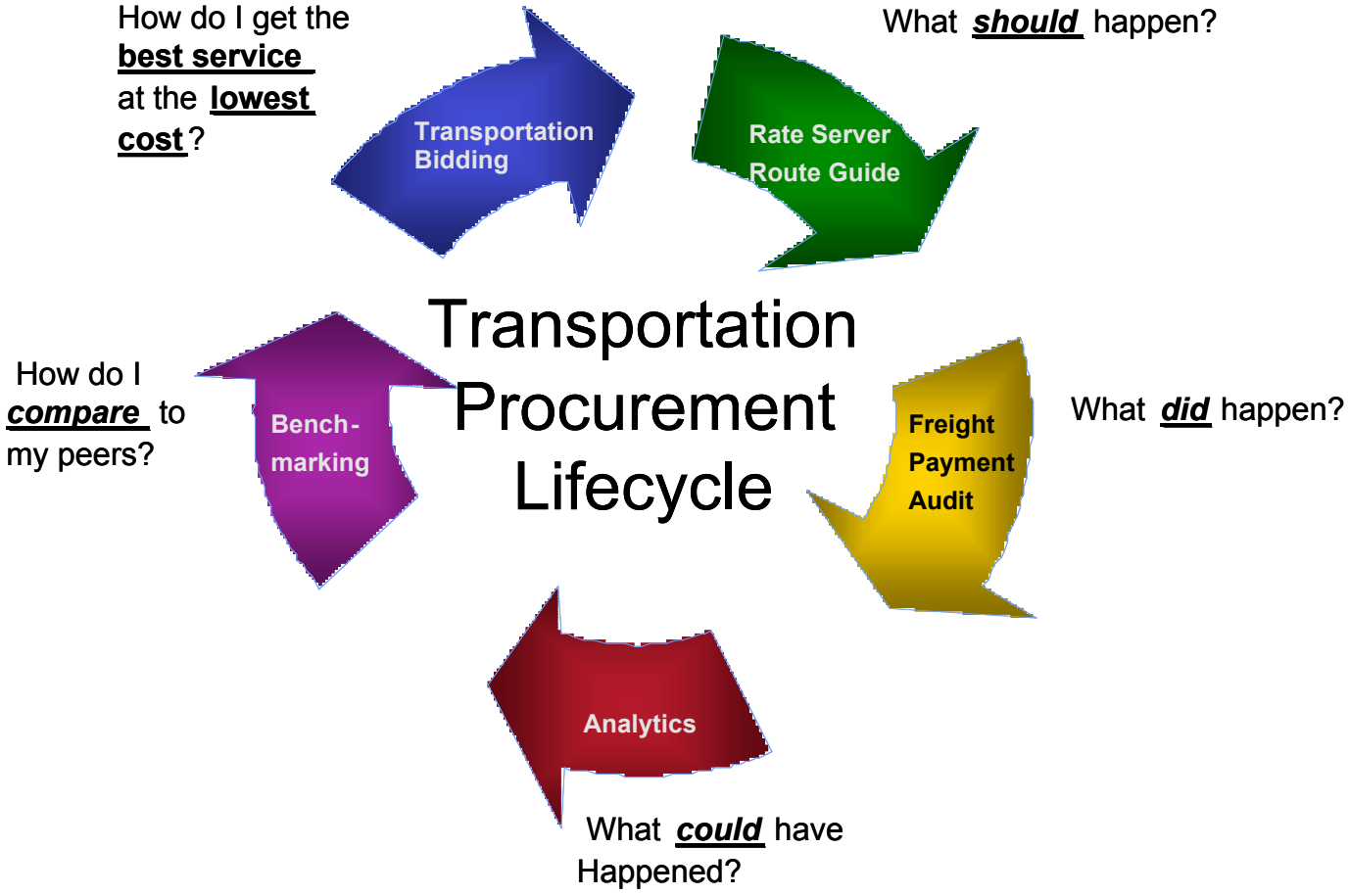
Transportation Procurement
A Primer To Better Logistics Management

Transportation spending is among the largest drivers of total supply chain costs. After enjoying a sellers' market for the last few years, the recent economic slowdown has resulted in many companies attempting to lock in more favorable shipping rates. But how does a company know if the time is right to go to market? How effective are its transportation procurement practices when it does go to market? The following white paper is the first in a series of publications that Schneider Logistics, Inc.'s Supply Chain Advisory Services Team will be producing on the topic of Transportation Procurement Lifecycle, in an effort to promote a better understanding of the supply chain from a transportation logistics perspective.



Seven Critical Steps in Achieving Freight Procurement Success

Conducting a transportation bid is like running a marathon—success is determined by solid preparation and achieving clear, measurable milestones. Here's a perfect example of how a few minor miscues can prevent you from achieving your transportation procurement objectives.

Fred, a corporate traffic manager at Mid-Sized Manufacturing, was accountable for his company's transportation budget and under pressure to reduce transportation spending—especially in light of the current "buyers' market." After evaluating the complexity of his company's network and thinking through the enormity of analyzing a large-scale transportation bid, Fred enlisted the technical expertise of Company X, a strategic sourcing company.

Fred and Company X developed the truckload bid with great intentions, using the "divide and conquer" mentality to split responsibility for the subsequent steps. Fred's team hosted two full-day, onsite carrier meetings—rolling out the bid timeline, contact information, network configuration, freight characteristics and desired outcomes. Company X supplemented Fred's onsite carrier meetings with two web-enabled carrier training sessions that highlighted Mid-Sized Manufacturing's bid strategy and the technical use of its online application.

Company X's online application was similar to typical web-based transportation procurement applications in which carriers log on to the site with user IDs and passwords. They were able to download and review multiple documents, including a non-disclosure agreement, a fuel surcharge addendum and a rate upload template. In addition to bidding on Mid-Sized Manufacturing's 17,000+ discrete lanes, carriers were encouraged to create packages and offer percentage-based discounts on the in-scope lanes. The only complaint carriers expressed was related to downloadable documents that were not compatible with their software programs. Carriers using different versions of Excel, for example, had great difficulty using the online application's rate template interface and uploading their populated file.

During the rate collection phase of the bid, Fred and Company X experienced a number of setbacks. When Company X failed to post Mid-Sized Manufacturing's contract and accessorial schedules on its web site, carriers didn't have visibility to these documents until the award and rate contracting phase. They also found themselves giving different answers to the same questions; when a carrier asked how much scaleable weight Mid-Sized Manufacturing required for its intermodal shipments, Company X declared 42,700 pounds, while Fred's company declared 45,000 pounds.

To make matters worse, Fred and Company X quickly fell behind on the bid timeline, finding additional lanes and volumes that should have been included in the original bid. To offset delays in the bidding process, Fred and Company X reduced the time allotted for each phase of the bid. For example, instead of being allowed two weeks to respond, carriers were asked to respond in six business days. And rather than confusing carriers

with multiple changes to the original bid, "mini bids" were distributed to capture the lanes and volumes that were missing. Carriers were asked to respond to the mini bids either through Company X's online application or through an Excel spreadsheet.

As the truckload bid drew to a close, Fred and Company X came upon their most difficult challenge yet—inconsistent formatting that resulted in data integrity errors, carrier frustration and mounting delays. The lane ID numbers from the rate templates became detached from their corresponding rates and lanes, and some of the mini bid lanes made their way onto the carrier award addendums. The carriers had quoted rates as flat charges, but were asked to sign rate addendums bearing per-mile rates. Without lane IDs, and the mix of original bid and mini bid lanes, this task became cumbersome. To make matters worse, a number of carriers came back to Mid-Sized Manufacturing stating their awards contained lanes that were either quoted with a different transportation mode or weren't quoted at all.

Fred sat back and pondered next steps, wondering what had gone so terribly wrong. He reviewed all the decisions that led up to the current situation and discovered seven critical steps needed to ensure success in future transportation procurement initiatives:

1. **Increased collaboration.** When more than one party is involved in an annual transportation bid process it's important to establish a project plan, set clear expectations and determine who is handling each task. This process ensures that carriers receive the same information and provide pricing that's based on the same underlying set of assumptions.

   Fred and Company X's collective "divide and conquer" mentality backfired. Carriers often have two means of loading intermodal shipments: on trailers, which can scale heavy (typically around 45,500 pounds), but are costly because they can't be double-stacked; or on containers, which have more stringent weight limitations (roughly 43,500 pounds), but are easier on the budget. Carriers who directed their scaleable weight inquiry to Company X based their pricing on the lowest-cost solution, assuming that either equipment type would work, while those who asked Fred offered only the premium-priced solution.

2. **Alignment of technical framework and desired outcome.** Carriers will offer competitive rates if given an opportunity to leverage existing capabilities and improve one or more value drivers—such as fleet utilization (miles per day) or network efficiency (load ratio, trailer balance, etc.). In an online bidding environment, carriers are frequently encouraged to build customized packages of lanes that create dedicated captive capacity solutions, match headhaul lanes with backhaul lanes or improve network efficiency. Individually, the lanes that comprise a package may not be desirable to the carrier that created it, and consequently the party conducting the annual truckload bid must evaluate its technical package-building capability and ensure it provides a means to the desired end. If the creation of a package is contingent upon the carrier first bidding on each lane individually, it's unlikely the shipper will receive the highest possible number of creative, competitively-priced solutions.

   In Fred's example, Company X had the right idea when it encouraged carriers to use its conditional bidding functionality, but the format likely deterred many from

exploiting this option. Carriers were asked to bundle lanes together and provide a discount that would apply to each lane's discrete price. The conditional bidding functionality would have been much more effective if it had empowered users to define flat rates or per-mile rates rather than an overall percentage discount.

3. **Be cognizant of differences in carriers' technology capabilities.** Large-scale transportation procurement activities engage carriers of all sizes—from small businesses to national enterprises, each with its own set of technology capabilities. The party facilitating the annual truckload bid must be mindful of differences in carriers' technology capabilities and design its response template in a way that ensures integral functionality (such as macros or the ability to filter, sort, or paste) is not lost when carriers use varying technology. In addition, carriers' ability to download and review bid documents and upload populated rate templates should not be tied to a specific software release, which was a major shortcoming of Company X.

4. **Ensure sufficient carrier response time.** Pricing response time should be considered untouchable. During this time—generally 1–3 weeks, depending on the size and complexity of the bid—carriers review the RFP document and addendums that accompany it, as well as the transportation contract, fuel surcharge program and accessorial schedule. If rates are collected through a web-based transportation procurement application, carriers typically attend a training session as well.

   Carriers then analyze the lanes and generate a first cut at lane-level pricing. This step can take a great deal of time if rates are requested in a number of formats (such as city to city, city to state, or state to state), in multiple currencies or for different transportation modes. If carriers have incumbency, they research the existing business and compare historical volumes, rates, freight characteristics and margins to their initial pricing. If warranted, incumbent carriers make further adjustments to their pricing responses. In the time that remains, carriers explore more creative solutions, including building customized packages of lanes to create dedicated captive capacity solutions, matching headhaul lanes with backhaul lanes or improving network efficiency. This final stage is where carriers generate their most lucrative offers.

   Looking back, it's plain to see that Fred and Company X made a costly tradeoff when they reduced carrier response time from two weeks to six business days on a 17,000+, discrete lane bid. While their intention was to make up for lost time, they did so at the expense of the most value-added stages of the carriers' pricing response process.

5. **Complete information disclosure.** Low-cost freight procurement is contingent upon the bid sponsor sharing full information with bid participants. Carriers, like all service providers, have no choice but to inflate rates as a means of protecting themselves against the uncertainty caused by lack of information disclosure. Carriers also bid higher when bid sponsors push the envelope in accessorial or fuel surcharge-related concessions or service add-ins.

   The following table illustrates some operational requirements that can trigger carriers to build a risk premium into their rates:

Bid calls for…	*Example*
Significant accessorial concessions	No driver detention at the shipper
Agreement to a fine and/or penalty structure	$200 fine if carrier turns back a load tender within 24 hours of the scheduled pick-up
Atypical operational requirements	Drivers must wear steel-toed shoes
High or open-ended cargo liability	Line shutdown costs for just-in-time freight (no liability ceiling)
Poorly-defined freight characteristics	If multi-stop, how many stops? Where?
International risks	No surcharge to accommodate Canadian dollar to U.S. dollar exchange rate, and rates are quoted in U.S. funds
Vague lane definition	3-digit zip code range format for Intermodal shipments
Poor fuel cost recovery	$0.01/mi increase for a $0.07+/gallon change in fuel price
Long rate contract	Honor rates for 18+ months

Example: If you're not going to require the driver to assist each time a load delivers, don't haggle with the carrier for a below-market driver assist accessorial because you may end up with a higher linehaul cost. In Fred's situation, it's likely that Company X's failure to post contract and accessorial schedules was a costly mistake. Without seeing the documents, carriers had no choice but to assume the worst.

6. **Avoid scope creep.** During the carrier response phase of a truckload bid, the bid sponsor must keep interruptions to a minimum allowing carriers to focus on the task at hand. When Fred and Company X realized that several volume lanes were missing from the truckload bid, they went into panic mode and began to inundate the carriers with a number of "mini bids"—some through Company X's online application and others through Excel spreadsheets—while the annual bid was still in progress. The mini bids diverted carriers' attention away from the truckload bid and introduced additional deadlines. The net impact of the mini bids was the erosion of the carriers' already deficient response period. For best results, hold off on incremental pricing requests until the annual freight procurement activities have reached their conclusion.

7. **Data consistency.** When comparing dozens of carriers' rates at the discrete lane level, format consistency is imperative for maintaining data integrity. Mid-Sized Manufacturing Company's bid sponsors didn't adhere to these guidelines. Following three simple rules will ensure a smooth transition from data collection to carrier selection and rate contracting:

- ✓ Assign a lane ID number to each discrete lane and keep the alignment intact throughout every phase of the bidding process.
- ✓ Find a consistent, repeatable method for identifying carriers, transportation modes and equipment types throughout the rate analysis process.
- ✓ Express rates in the same format (for example, flat rate or per-mile rate) throughout every phase of the bidding process.

Focusing on these seven critical steps can help others avoid similar freight procurement nightmares and focus on the prize of cost-effective supply chain logistics management.

About Schneider Logistics, Inc.

Schneider Logistics, Inc. is an international logistics provider to Global 2000 companies. Together with its subsidiaries American Port Services and American Overseas Air Freight, the company provides end-to-end supply chain management, transportation management and international logistics services.

Schneider Logistics, Inc.'s Supply Chain Advisory Services Team offers global services—routing guide and compliance, benchmarking, BidSmart™, rate maintenance and analytical reporting—that combine technology, analytics and an unmatched 70+ years of industry expertise. BidSmart is a multi-round, consultative bid process that has been proven to improve service and facilitate more effective carrier capacity management; this web-enabled application was designed exclusively for transportation bids.

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