

A good time to outsource transportation

As capacity constraints in transportation build, chemical companies should seek management options

EDWARD HILDEBRANDT CHEMLOGIX

New proposed “Hours-of-Service” rules, limited truck driver and asset availability, increased year-on-year shipments and higher fuel surcharges will continue to increase pricing and capacity pressures in the market as the year progresses. So is this a good time for shippers to outsource one or more truck modes?

It’s April, and the capacity issues of last year have returned. Several bulk carriers already have reported 10–20% turn-backs in served markets. This is where carriers receive orders from shippers and turn them back because they don’t have the capacity to cover the loads. Rising fuel surcharges (FSCs) are adding to shippers’ concerns and frustrations. How high will FSCs go and what will be the impact on rates as the year progresses?

In addition, new US Hours-of-Service rules may put additional restrictions on carriers and shippers in terms of how long commercial motor vehicle operators can drive. The peak transportation season is from March to June, and these issues will become more apparent through this period.

The US Federal Motor Carrier Safety Administration (FMCSA) proposed the new Hours-of-Service regulations on December 29, 2010, but they have yet to be finalized.

Has your company planned new supply chain strategies to mitigate inevitable carrier rate increases and capacity constraints, or do you plan to muddle through the capacity crunch like last year? If it’s the latter, you might be in for a rude awakening when available freight capacity doesn’t adjust to meet your demand for freight coverage.

Chemical shippers must plan to maintain and expand available capacity and prevent competitors from depleting available resources. If you aren’t ready, perhaps it is time to

outsource one or all of your freight modes.

When considering outsourcing or mode management, evaluate the different resources available to support your business. Many third-party consultants or lead logistics providers offer the technology, knowledge and networks to support chemical companies in meeting specific supply chain requirements.

For example, if your company doesn’t have a transportation management system (TMS), just managing daily carrier calls and faxes to gain added carrier coverage will be difficult. Last year, many shippers engaged as many as 15–20 additional carriers just to satisfy daily freight requirements.

With web-based TMS technology, shippers gain the capability to electronically broadcast

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logistics requirements to the market, identify available trucking assets in the network and quickly match capacity to their needs.

STIFF COMPETITION

Shippers must realize that they are competing with other shippers as well as third-party and lead logistics providers for available capacity. Shippers with the right tools will have a competitive advantage to quickly obtain load coverage, even against tough competition.



Don't leave transportation outsourcing to hindsight

Using TMS technology, shippers can access granular information about transportation expenditures to pinpoint mode shifts, identify accessorial shifts in real time and effect changes before costs escalate out of control.

Today, most financial executives are very concerned about timely posting of freight costs. A TMS can gather freight accrual information on a per shipment basis in real time instead of waiting several weeks after the shipment when carriers send invoices for payment. Current freight cost can be added to other costs to create a true monthly expense-to-sales revenue comparison.

OBTAINING VOLUME

In an oversold market, shippers needing to add volume may find it difficult to do without increasing costs unless they can match the added volume to a carrier’s complementary or empty return lanes. Load matching carriers’ or other shippers’ lanes in the opposite or complementary direction can be augmented by effective freight procurement techniques. That prompts the question: “How does a shipper know what lanes and volumes exist in the market?”

As part of the solution, an outsource partner will identify reasons freight may not be attractive to carriers

While shippers may ask carriers about their freight desirability, answers may be vague or unavailable. Expert on conducting benchmarks and bids, a third-party or lead logistics provider typically maintains data on different freight markets to identify where your freight fits – not on an aggregate basis, but on a lane-specific (origin and destination) basis.

Carriers today are extremely cost conscious, managing business using profitability by lane to make client and load acceptance decisions. Shouldn’t you be armed with the same market intelligence? If your freight is not attractive to carriers, do you just pay an exorbitant price?

Again, a third party or lead logistics provider with a proven track record of solving difficult capacity issues can address your particular issues.

PART OF THE SOLUTION

As part of the solution, an outsource partner will identify reasons why freight may not be attractive to carriers. Perhaps you delay carriers at the plant to load past normal loading times; maybe you move pickup appointments too frequently. Often, shippers just forget to reward carriers that have supported them as they add more volume. Or maybe freight spend is too dispersed across multiple plant sites to gain ca-



New rules are poised to limit driver hours

capacity and pricing leverage. Solving these issues and working with existing carriers may be the answer to getting more capacity.

Once you decide to look for an outsource partner, who do you choose? Here’s a checklist for evaluating different resources:

- Check references. You want an outsource partner you can trust and that has long-term client partnerships. Bigger is not necessarily better. Your third-party consultant should have a demonstrated track record of building flexible creative solutions to client problems.

- Find a resource that knows your market. While different outsource companies may offer similar capabilities and technology tools, many may not know how they apply to your business. Only third-party consultants experienced within your industry have the knowledge, networks and databases necessary to address your specific issues.

- You want a partner who “owns the problem.” Rather than just answer questions, pick a partner that pays attention to all your needs and proactively identifies areas of savings associated with mitigating accessorial costs, modal selection, and/or load consolidation. Your partner should focus on continuous improvement – not only for carrier performance, but also the entire supply chain. It should compare your current practices against best methods in the industry, identify the economic value of change for alternate business processes and develop strategies supported by examples from shippers that have made the necessary improvements to enhance the viability of their organizations. ■



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