Finding a TMS that will Deliver Value Today and in the Future

Special Report
SPONSORED BY

Descartes Systems Group

A lot of companies will acquire transportation management systems over the next few years, according to recent market reports. Transparency Market Research predicts a compound annual growth rate (CAGR) of 12.20 percent for the global TMS market (2014- 2022), while Credence Research projects a 13.1 percent CAGR (2015-2022). Both expect global sales to reach an annual value of $19.2bn by the end of the forecast period, with North America continuing to dominate.

Two major factors are driving this market surge, says Brian Hodgson, vice president of sales and marketing at Descartes Systems Group, a leading TMS vendor. First is the change in transportation requirements driven by expanding sales channels, such as e-commerce and omnichannel distribution; second is the rapid adoption of cloud architecture by TMS vendors.

E-commerce and omnichannel distribution have resulted in what often is referred to as the Amazon Effect, says Hodgson. "This means heightened customer expectations in terms of product and delivery choices, faster delivery times and better visibility – at no additional cost. This is happening in both B2C and B2B markets."

Even more significant, though less recognized, is the rapid spread of this effect to business-to-business (B2B) transactions, he says. Estimates peg current B2B online sales at around $800bn, already more than double that of business-to-consumer (B2C) e-commerce. Future projections have the B2B online market exceeding $1tr by 2020, with wholesalers and manufacturers investing far more than retailers in e-commerce technology.

"Like retailers, B2B suppliers are under increasing pressure from their online customers to meet heightened expectations in ways that require a wider set of transportation options," says Hodgson. For example, one Descartes customer, a wholesale food distributor, traditionally used its own fleet for B2B deliveries, but online ordering resulted in some customers placing orders too small or bound for locations too distant to warrant the use of fleet trucks for delivery. "In this case, we helped the customer add a parcel shipping solution, and it now makes about 1,000 parcel shipments a week," he says.

A similar challenge faces suppliers that are being required to provide direct fulfillment of online orders for items like replacement parts. Where these companies formerly dealt only in truckload and LTL shipments to their retail customers, they now need a small package shipping option. Additionally, Hodgson notes, a large number of branded manufacturers – perhaps as high as 85 percent – currently use Amazon as an authorized reseller. "This changes the order profile for these companies," he says. "Where before they were shipping only pallets, they now have a mix of pallets and small packages, which is more challenging for a transportation department."

These requirements are not easily met using legacy TMS solutions that may have been implemented 10 or 15 years ago, says Hodgson. "Older systems are too rigid and inflexible to adapt to these new business models, so companies are now looking to replace and upgrade, helping drive TMS sales.

The other big factor boosting demand for transportation management solutions is the adoption of cloud architecture. "In the last five years, software as a service has become the norm for TMS," Hodgson says. The benefits for customers are faster implementation times and access to the latest software upgrades without having to purchase a server, manage a database or devote IT resources – factors that have led to dramatically lower costs, opening TMS to a whole new market of buyers.

It used to be that TMS applications were largely limited to companies with freight spends of $200m or more a year, says Hodgson. "These were big projects with big footprints that might take two years to implement, which meant two years before any value was created," he says. There were smaller implementations that automated specific functions, "but if transportation requirements changed, customers found themselves boxed in by a niche solution."

With the cloud, a company can implement and start getting payback on TMS in as little as six to eight weeks. Combined with low upfront costs, this makes it cost effective and beneficial for companies with freight spend as low as $3m to $4m, Hodgson says. "This covers a huge set of shippers for whom TMS was previously out of reach."

TMS for Today and the Future

Whether a company approaches the market as a first-time TMS user or as one replacing an outdated legacy system, it is important that they understand how to find a system that fits their business, both now and in the future.

"I usually suggest that companies first look internally at their current transportation organization and processes and at any corporate initiatives that are driving change, with an eye toward identifying transportation challenges causing problems today as well as less immediate issues that may be on the horizon," Hodgson says.

This analysis will enable companies to develop an implementation plan. Larger companies may want to do what Hodgson calls Big TM, which involves implementing a full suite of solutions, sometimes in support of a new supply chain project. "Some companies may need to do everything in one big fell swoop for strategic reasons and because existing systems are limiting their growth. These are big projects with big paybacks and they really cannot be done piecemeal, but they need a sophisticated IT team and resources."

The more popular implementation option, which appeals to mid-sized companies and first-time users, is to implement modularly: start with a solution for one problem, leverage the payback from that to fund the next problem, and so on.

The implementation approach chosen will help determine a company's choice of vendor, says Hodgson. "Large vendors like Oracle or SAP are focused on big implementations. For phased-in implementations, look for a vendor whose solution is modularized and has the agility to phase in applications in your order of priority. Also, be certain that when the first project is complete, the vendor will be ready and able to support you on the next set of implementations."

"This is really about right sizing, or deciding the scope and investment for TMS that will give you the best payback," says Hodgson. As an example, he posits a company with freight spend of $25m whose processes are all manual, whose mix includes LTL, TL and parcel, who is looking for consolidation opportunities and who wants to expand to Europe. "This company would benefit from a 'crawl, walk, run' approach," he says. "It might start by automating and optimizing its inbound transportation, which represents a big part of its spend, then take the savings it realizes there to help tackle the next area."

Companies shopping for TMS also should undertake an internal assessment of their transportation organization, says Hodgson. Some companies, he says, grow or expand in a way that causes transportation operations to become stove-piped. He points to a customer that was using Descartes TMS to manage all supplier shipments into its DCs as well as outbound deliveries from DCs to stores. But a set of suppli-



ers that shipped directly to stores was managed separately. Plus, there were separate transportation operations for e-commerce sales and for international shipping. "This kind of stove-piped organization presents an opportunity. It may not make sense to merge them all together, but it is certainly worth assessing to see if there are areas of commonality that might be leveraged."

Companies also need to consider what they don't know and to ask whether potential vendors are flexible enough to deal with new requirements that might develop, says Hodgson. "We have an e-commerce customer that decided it needed to develop a home delivery service using a private fleet in order to stay competitive. This was a brand new concept, but from the time of concept to going live with that service took only 18 months. This validates how the timeline for execution of strategic business decisions is shrinking, and the necessity for having a TMS can adapt to changing business models."

Another very important consideration for potential TMS users is the size and scope of the transportation network they have or need. One of the key purposes of installing TMS is to establish reliable electronic communications with customers, suppliers, carriers, forwarders and brokers. The ability to exchange information like purchase orders, shipping notifications, customs clearances and real-time tracking enables users to operate more efficiently.

Here Descartes has an advantage unmatched by other TMS providers – its Global Logistics Network. GLN offers access to more than 220,000 suppliers and logistics service providers in more than 160 countries that already are connected to the Descartes platform. Such networks "can drastically reduce the startup time and effort required to connect and start using the platform with all your partners," says Bill McBeath, chief research officer at ChainLink Research. In a ChainLink report on networked platforms, McBeath also lists other network advantages, including opportunities to more easily discover new partners and to engage in multi-party collaboration.



Hodgson says that most Descartes users find that many of their major trading partners already are in the network, but if not, onboarding new partners can usually be done very quickly. "This kind of network would not be possible without cloud technology," he says. "Before each user would have had to connect separately to each partner, but with GLN each partner only has to connect once, to the GLN platform."

TMS vendors without a large, connected network typically enable partner communications through a carrier or supplier portal, says Hodgson, but portals have serious limitations. "Companies that deal with big suppliers, but represent only a small percentage of the suppliers' business, often have difficulty getting those suppliers to use a portal," he says. "Other TMS vendors don't have an answer to that problem, but we can advise the customer to communicate with the supplier through GLN, because the supplier already is plugged in and using the platform." This can mean big savings, he says. "We had one customer who was able to get half its suppliers to use a portal, but that represented only 20 percent of its inbound shipments. It estimated that it could save an additional $90,000 a year by getting that percentage up, which the GLN enabled."

Finally, says Hodgson, when selecting a TMS vendor it is important to have realistic expectations about results. "TMS payback is always a factor of balancing service levels and costs, which will differ for every company," he says. Generally, reductions in freight spend fall anywhere between five to six percent and 20 percent, he says. These savings come from automating transactions and processes, optimizing routes and loads and leveraging consolidation opportunities. Additionally, improved freight audits and self-invoicing can realize savings of three to seven percent.

"The complexity that transportation teams are dealing with has increased dramatically in the past decade – and continues to increase – but logistics managers still are expected to drive cost savings and heightened customer service," says Hodgson. "Selecting the right TMS and the right vendor can help meet those demands and provide a sustainable competitive advantage – today and in the future."