

Understanding the Freight Transportation Challenges of Mid-Market Shippers

When it comes to managing freight transportation, mid-market manufacturers and suppliers face a unique set of challenges.

Big enough to require substantial transportation assets to get its product to market, but too small to dictate terms to the biggest retailers: the mid-market supplier is constantly scrambling to meet the demands of its customers.

The plight of mid-market shippers comes into sharp focus in a new survey of logistics and transportation directors by logistics service provider Kane Is Able. Reaching more than 100 respondents, it posed a key question: As a mid-market company, what are your biggest frustrations and challenges in trying to run an efficient freight transportation operation?

In creating the survey, Kane Is Able defined the mid-market as companies with revenues of between $75m and $750m. (Others widen the category significantly; the National Center for the Middle Market at Ohio State University's Fisher College of Business includes those in the $10m to $1.0bn range.) Regardless of the precise definition, however, the term "mid-market" comfortably incorporates entities that lack the highest degree of negotiating clout with retailers and other customers.

Indeed, such shippers "are very focused on how they deal with their size in the market," says Mark Johnson, senior vice president of sales & marketing and transportation with Kane Is Able. Their chief concerns include moving materials in a cost-competitive manner, so that high transportation expense doesn't place them at a competitive disadvantage.

Cost becomes a particular concern when the shipper isn't big enough to take advantage of the most efficient forms of transportation. More than 63 percent of respondents to the Kane Is Able survey said they often have to ship less than a truckload of product. LTL, of course, can be significantly more expensive than the full-truckload option that's employed with regularity by the biggest shippers.

LTL also tends to entail longer transit lead times and a lack of control over accessorial charges, says Chip Nolin, director of supply chain with Seventh Generation, a seller of environmentally responsible cleaning and personal-care products. Grocery retailers can be especially demanding in dictating narrow delivery windows that are tough to meet with LTL services, he says. Missing those targets can mean paying stiff penalties and detention costs that eat into suppliers' already thin profit margins.

Even when it's able to ship truckload, Seventh Generation can't always utilize the entire truck. Yet higher shipment volumes aren't necessarily the answer either, especially at a time when retailers are requiring smaller orders and more frequent deliveries.

Stepping Up Frequencies

Daniel Barnd, director of distribution and logistics with the Pennsylvania Liquor Control Board (PLCB), agrees that retailers are asking shippers to increase delivery frequency. A given store might still want 1,000 cases of product, but now it's asking for 250 cases four times a week. From the supplier's standpoint, that has a negative impact on cube utilization within



the truck – not to mention causing increased wear and tear on transportation assets. The resulting costs are charged back to the shipper.

Barnd says the PLCB employs some creative strategies that draw on both types of haulage. While it tries to use truckload as much as possible, it might follow up a trip by asking the driver to return to the warehouse/distribution center on that same day, then take smaller loads to local destinations. When a trailer is moving with less than a full load, the shipper will load the pallets in a "pinwheel" configuration, to prevent shifting and damage of product in transit.

"We're looking to run as efficiently as possible with the least amount of resources we can," says Barnd.

Bostik Inc. is an international adhesives supplier, shipping to both industrial customers and retailers. Nowadays, it's not unusual for the shipper to include four or five different products in the same pallet destined for a big-box store, says director of supply-chain management Louis Cheung. Full truckloads of the same product are extremely rare.

At the same time, Bostik is being asked by retailers to adopt more of a just-in-time strategy for deliveries, with last-minute order changes becoming increasingly common. As the variety of product in the pipeline increases, the size of individual orders shrinks. Sometimes that means resorting to parcel, Cheung says.

Bostik is seeking to minimize transportation costs through implementation of a new enterprise resource planning (ERP) system. When integrated with the company's transportation-management system (TMS) software, the technology will allow the company to do a better job of daily and weekly planning. "It should help us to optimize our freight, and make us able to plan ahead, without increasing cost," says Cheung.

Bostik is also finishing up work on a project to model and optimize its entire network. The result, says Cheung, will be a "multi-year road map" that will help the company to reconfigure its distribution operation in line with growth expectations.

Optimizing the Load

Johnson says the Kane Is Able survey reveals a broad trend among mid-market suppliers toward growing sophistication in such key areas as load maximization. And the technique doesn't just reduce the shipper's cost. Careful planning of the way a trailer is configured helps it to gain favor with carriers as well – especially when items are packed well, can be easily loaded and unloaded, meet ideal density targets, and don't shift around in transit.

"If we can't save money based on volume, can we do it based on attractiveness?" Johnson asks. "Carriers love 'clean' freight, especially in the LTL environment."

Other transportation woes reported by mid-market shippers in the survey include a limited ability to track and trace their goods, the need to pay premium rates to move product, and the inability to secure a house carrier due to sporadic volumes.

The answer for many smaller suppliers lies in tighter and more creative partnerships with retailers. Just over 45 percent of respondents to the survey said they have a "superficial" or "minimal" relationship with customers. But an equal amount reported "close" and "collaborative" ties.

"It starts with compliance," says Johnson. Big retailers such as Wal-Mart Stores Inc. maintain strict criteria for how and when they receive product, with costly penalties for failing to meet them. Shippers must adhere to detailed rules in such areas as pallet loading, freight configuration and labeling, he says.

Standing alone, a smaller shipper's chances of satisfying the retailer's ever-changing requirements are slim. But some are raising the odds through participation in load-consolidation programs, often through the participation of a third-party logistics provider. With its focus on the mid-market, Kane Is Able serves many suppliers shipping to the exact same retailers. It's able to consolidate orders to create lower-cost truckload shipments, and allocate costs to suppliers based on the portion of the truck they use. They'll aggregate inventory within the 3PL's facility, from which multiple products can be shipped out as mixed loads in full truckload quantities. "Not only does the strategy improve quality control, it keeps a lid on cost," Johnson says.

A Matter of Education

Even so, the concept is just beginning to take hold with mid-market companies. In the Kane Is Able survey, just one-quarter of respondents called the notion of reducing LTL costs by consolidating loads with other shippers "very valuable." Thirty-six percent said they would need to know more about the idea, while the rest were either neutral or thought it was "not very valuable."

The value that a 3PL can bring to mid-market shippers "is widely variable in the minds of some shippers," Johnson says. "It's more a matter of education than experience." Ironically, he adds, many bigger shippers are sold on the use of 3PLs to provide outside expertise and creative strategies for working with carriers and retailers.

Seventh Generation, for one, has embraced the use of a third party with enthusiasm. It participates in a program that services LTL customers on a pool-consolidation basis, overseen by a 3PL. The savings are evident, says Nolin. "It's an LTL-style business, but with a full-truckload mentality."

Direct ties to the retailer can be of value as well. Barnd and his team at PLCB keep an "open flow" of communication with stores and their logistics operations. They work to resolve issues that pop up from time to time, such as problematic delivery schedules and the configuration of storage areas within stores' backrooms. "There's an awful lot of communication up front," he says.

Some suppliers require still another level of attention, regardless of their size. That's even the case when the shipper is also the retailer. Haverty Furniture Companies, Inc. ships exclusively to its own network of 134 brick-and-mortar stores in 16 states. Because of the delicate and oversized nature of its product, it requires highly specialized equipment and attention from carriers, says vice president of supply chain Abir G. Thakurta.

"Haverty demands the same of level of quality and consistency of service as afforded the biggest shippers," Thakurta says. It cements relations with carriers by paying on time and providing the most accurate forecasts possible of its transportation needs over a 12- to 14-week period. The company works with 3PLs to ensure visibility of shipments in progress.

Johnson believes there is a substantial opportunity for mid-market shippers to partner with 3PLs. And many appear to at least understand the arguments in favor of that approach. Asked to state the most important factors that would motivate them to consider outsourcing, they cited, in order of importance, cost savings, improved service, predictive expenditure, ability to shift liability, and driver retention. (With regard to the last, more than 78 percent of survey respondents do not operate their own fleets.)

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Johnson says the survey was of value to Kane Is Able because it reinforced the 3PL's understanding of the needs of the market. Kane Is Able believes mid-market companies should increasingly gravitate toward the use of third parties, as they struggle to keep pace with larger shippers and satisfy the needs of dominant retailers.

"By utilizing our program, we save our mid-tier customers more than 20 percent over standard LTL shipping rates," says Johnson. "We've long been focused on that class of shippers. But there's always an opportunity to do more for the segment."