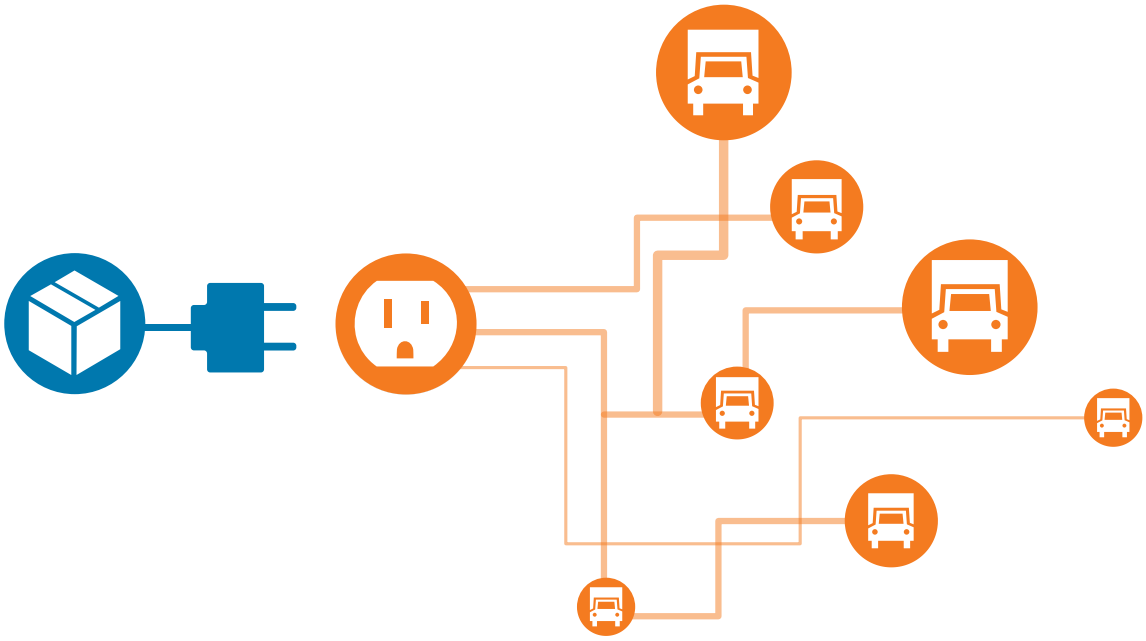
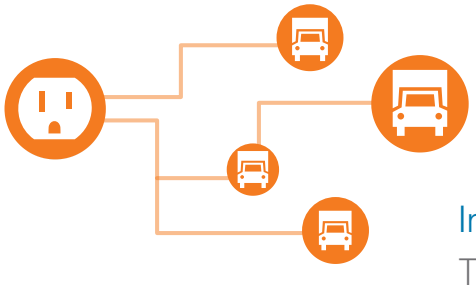
10 Tips to Prepare for a Tight Capacity Market

WHITE PAPER



C.H. ROBINSON WORLDWIDE, INC.



In brief

Taking a more strategic approach to truckload procurement helps align the business goals and outcomes of both shippers and carriers, and can result in deep savings and exceptional service levels over time. By taking these ten steps, shippers can obtain better access to capacity, regardless of economic and market conditions.

Economic and market activity drives availability of capacity. When product demand is weak, less freight moves and more capacity is available. But when demand increases and freight exceeds the available truck supply, a capacity shortage results.

In tight capacity markets, service providers have a greater choice of business options resulting from increased demand. At such times, some shippers may have trouble obtaining the equipment they need and are likely to pay higher transportation rates. Those who experience the most trouble have likely:

- Only talked to carriers about low market rates
- Switched back and forth between service providers, always chasing the lowest cost deal
- Tried to time the market to lock in low transportation rates for two years or longer, no matter what was happening to the service provider's business
- Ignored provider complaints about issues like long loading and unloading times and freight that was difficult to handle

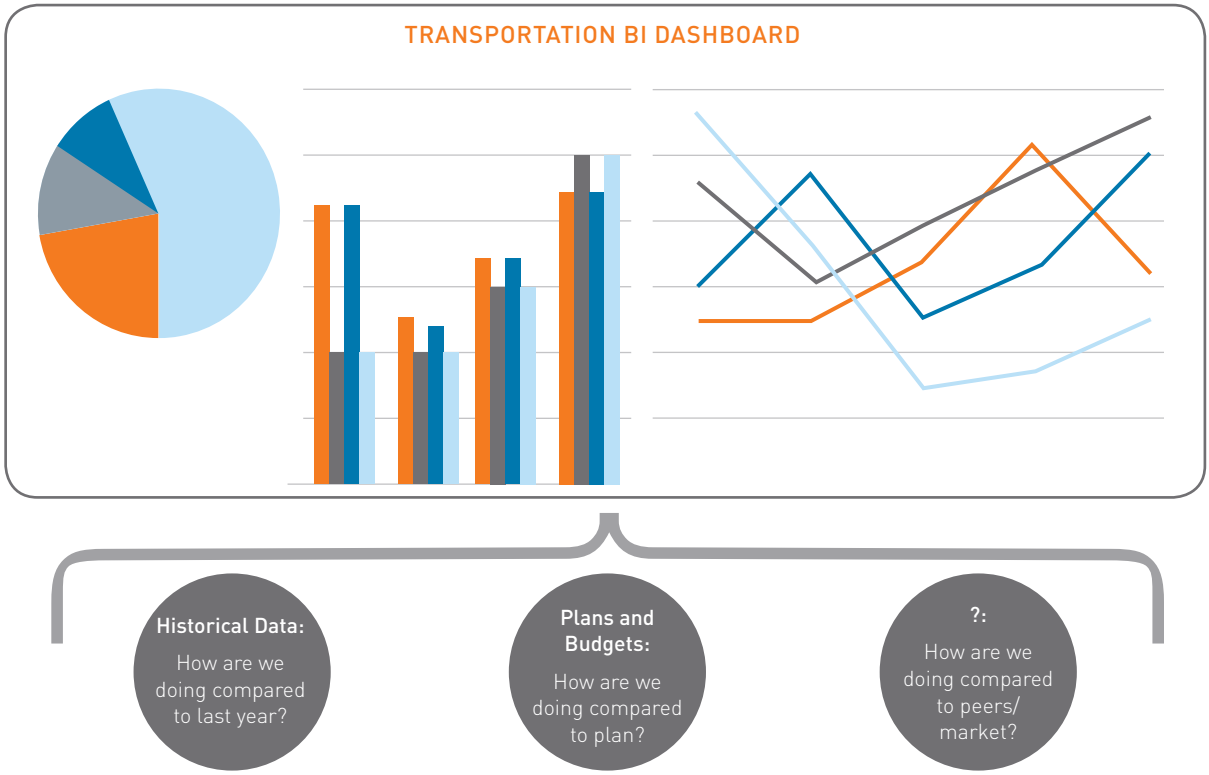
It's never too late to start taking a more strategic approach to truckload procurement—a mutually beneficial relationship between shippers and service providers. An ongoing effort to seek alignment between shipper and service provider networks is a strategy that can show benefits to both parties. Seeking alignment between business goals and outcomes of both shippers and carriers can result in better rates and exceptional service levels over time.

This white paper provides insights on a strategic truckload procurement strategy that can help prepare for a tight capacity market. By taking these steps, shippers can obtain better access to capacity, regardless of seasonal or economic conditions.

1. **Don't try to time the market.** There's nothing wrong with seeking competitive rates at a given point in time. But there's no more likelihood you'll be able to time the truck market than the stock market. "Timers" in transportation—the people who try to lock in rates when they believe rates are absolutely at their lowest point—often get in at the wrong time and end up paying more in the long run than those who are more strategic about their procurement.

2. **Benchmark.** Understanding how last year's transportation rates compare with this year's is only part of the equation. To know whether current rates are good or bad, shippers need to know how they compare (high or low) to the overall market. Shippers can use a benchmarking tool, such as the one offered by CHAINalytics Model Based Benchmarking Consortium (MBBC). Such tools help set realistic expectations for both shippers and service providers. According to Adrian Gonzalez, *Logistics Viewpoints*, some shippers are learning even more about rates by embedding benchmarking data in the TMS of a 3PL or software-as-a-service (SaaS) TMS provider, leveraging not only historical data, but benchmarking data and best practices, as well into their overall business intelligence (BI) analysis (see figure 1).[1]

FIGURE 1 BENCHMARKING EXAMPLE



Source: Gonzalez, Adrian. "The Missing Link in Transportation Business Intelligence." *Logistics Viewpoints.* January 19, 2011.

1 Gonzalez, Adrian. "The Missing Link in Transportation Business Intelligence." *Logistics Viewpoints.* January 19, 2011.

3. **Conduct a procurement exercise at the same time of year, every year.** Reviewing rates and service provider options every 12 months allows for better alignment of shipper and provider networks for long-term, sustained pricing levels at or below the market. Shippers who develop a robust process for contracting freight also build credibility in the market as reliable, even-handed customers. In addition, service providers can be more strategic and productive when they are able to forecast business into their annual plans, and understand they won't be locked into a bad situation for an extended period of time. It can help influence what equipment a provider makes available to the shipper, how many drivers they hire, and where they plan to commit their resources. With a year-long plan established, providers are far more likely to adapt to all types of market changes, continue to accept shipments, and provide quality service. Learn more about procurement exercises by reading the *CSCMP Explores…* document, "Deriving Strategic Advantage from Truckload Procurement," available at the website of the Council of Supply Chain Management Professionals (CSCMP).

4. **Share the truth about the business.** Shippers who make their freight look better than it is may get competitive rates through a procurement exercise. But if moving that freight turns out to be more involved than expected (e.g., the shipments aren't available until the end of the day, week, month, or quarter, or there are constantly long loading times), service providers may decide to accept easier freight from other shippers in the marketplace. When the primary service provider doesn't accept the freight, it's common that backup providers may have accepted other freight. As the shipper continues down the routing guide, they usually pay above-market rates and may still have non-priority service levels. Conversely, if shippers don't disclose to service providers what's attractive about the freight, providers may assume the worst. In that case, they may make plenty of capacity available to the shipper, but not at the best possible prices.

5. **Use a web-based bidding tool to conduct the strategic procurement exercise.** Many tools make it possible to quickly and simultaneously submit a strategic procurement exercise to multiple service providers. Given the large size of the files associated with procurement exercises, shippers may want to use the web-based tools and cloud computing solutions from Managed TMS® or SaaS providers. These tools and solutions can circumvent potential issues with the service providers' firewalls and offer an equal level of data security to all parties.

6. **Use a constraint based bidding tool.** Tactical buyers of transportation typically assume that once they have a routing guide, their rates are not increasing. In fact, benchmarking and constraint based bids often reveal that the lowest cost carriers in the routing guide provide less and less capacity over time—a fact that can be revealed by TMS reporting. As provider substitutions are made, the cost of transportation goes up.[2] A strategic buyer of transportation can use trend analysis information collected from a TMS during the truckload benchmarking and baseline process to see that their rates are rising, even between bids. This information can be used to determine where to pay special attention during the next scheduled procurement exercise, as well as areas to focus on between exercises.

2 Caldwell, Erik, and Bryan Fisher. "Increase Lead Time, Decrease Costs." White paper thesis summary by graduate students in the Master of Engineering in Logistics (MLOG) Program at the Massachusetts Institute of Technology, 2010.

By collecting freight rates and modeling scenarios, constraint based bidding tools enable shippers to obtain the optimum transportation plan, and to understand the trade-offs between using different service providers and different cost structures.

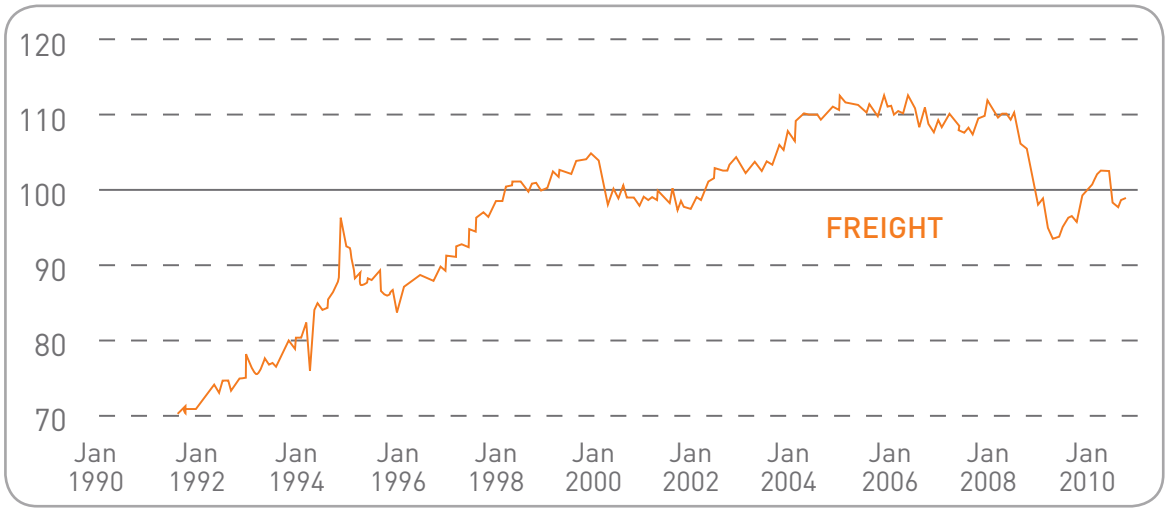
7. **Hire a procurement expert to run a procurement exercise.** Experts can help lower the burden of preparing for a procurement exercise and ensure that all the necessary elements are in place. They can provide experience modeling multiple scenarios and using a constraint based bidding tool. And they can provide a sounding board to help determine whether a solution is truly realistic, and how much risk the shipper may take with various scenarios. By choosing a consultant with experience conducting procurement exercises—preferably a consultant that also has web-based and constraint bidding tools to compare all the scenarios—shippers obtain an unbiased view of rates being offered and discern how realistic those rates really are.

8. **After the procurement exercise, use a TMS.** There's no substitute for TMS tools once a plan is in place for the year. A TMS or Managed TMS® service provides carrier scorecards, client scorecards, savings analyses, item and order level reporting, network and ship site performance, and overall financial analysis. A TMS is also neutral, delivering performance data and analytics without bias. Incorporating this kind of intelligence into annual and quarterly reviews with service providers leads to two important outcomes. First, it allows shippers to work with hard data, not anecdotal information. They can compare real costs to both historical and planned costs in an effort to optimize the network and track routing guide leakage. Without this information, it isn't clear why a plan succeeds or fails to meet the budget at the end of the year. Second, it gives service providers the insights they need to provide better service. TMS software and Managed TMS® services are widely available for purchase, lease, or as a fee-based solution with the trained people who can help obtain both immediate and sustained ROI.

9. **Maintain a stable set of service providers from year to year.** This doesn't mean that shippers can't add any new service providers. Competition is healthy. But the shipper should measure how much freight they give to non-incumbents, and recognize that as more freight is given to these providers, more risk is added to the solution. Realignment with service providers where it makes sense—not constant provider turnover—drives real access to capacity and savings. Shippers can build stable relationships by developing a long-range mindset. That means conducting rate negotiations on a fixed cycle so service providers can plan their network around freight needs. Alignment over a sustained period of time is beneficial for both shipper and provider. When both parties collaborate on a full-year plan using forecasts and modeling tools, there is a much better chance that capacity and cost will be aligned. Providers gain an incentive to accept shipments and provide tools, processes, and dedicated services that result in higher quality outcomes.

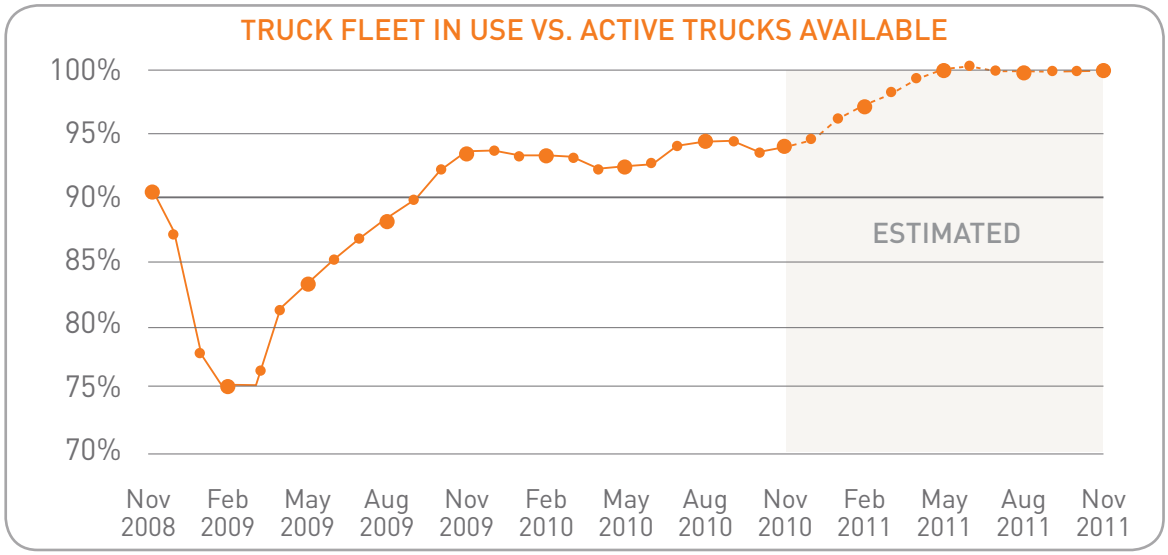
10. Understand what drives ongoing fluctuations in the market. As mentioned at the beginning of this white paper, the availability of capacity is driven by economic change. Capacity shortages, like the economy, are also cyclical. While there are no fail-proof ways to absolutely identify when a capacity shortage will occur, shippers can watch certain economic indicators to understand what is happening in the market and anticipate potential impacts on transportation rates. The Transportation Services Index, for instance, measures the month-to-month changes in freight shipments in ton-miles, and is available from the Bureau of Transportation Statistics (see Figure 2). Various freight indexes offer views of spot market freight that represent changes week-over-week, month-over-month, and year-over-year in transactional capacity and rates. And other indexes, such as the Active Truck Utilization index from Freight Transportation Research Associates (see Figure 3), provide helpful information for planning. Shippers who are aware of changes in the market should communicate with their providers about their annual bidding cycle and the desire to maintain an ongoing relationship—a winning strategy in the long run.

FIGURE 2 TRANSPORTATION SERVICES INDEX



Source: Bureau of Transportation Statistics December 2010

FIGURE 3 ACTIVE TRUCK UTILIZATION



Source: Freight Transportation Research Associates January 2011

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2. Benchmark
3. Conduct a procurement exercise at the same time of year, every year
4. Share the truth about the business
5. Use a web-based bidding tool
6. Use a constraint based bidding tool
7. Hire a procurement expert
8. Use a TMS
9. Maintain a stable set of service providers from year to year
10. Understand what drives ongoing fluctuations in the market

About us

Founded in 1905, C.H. Robinson Worldwide, Inc. is one of the largest third party logistics companies in the world, providing freight services, logistics outsource solutions, fresh produce sourcing, and information services to more than 37,000 customers globally, ranging from Fortune 500 companies to small businesses in a variety of industries.

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