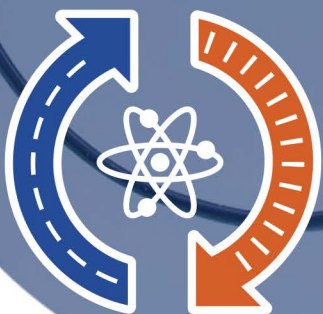# The Comprehensive Guide on Managed Transportation Services

InTek Freight & Logistics Inc™

Technology Driven Road & Rail Solutions

Managed Transportation – A Game Changer

A study put out by the Aberdeen Group found 83% of companies interviewed have become keenly aware of the cost and service impact transportation has on the overall supply chain performance of their company and see transportation as more than just an isolated budget line item to be monitored, but a critical component of overall supply chain excellence that can be leveraged for a strategic advantage.

So, while rising freight rates, higher fuel costs and constrained capacity may be the more obvious drivers of why executives are concerned with their transportation spend there are larger issues at hand.

In addition to the Aberdeen study findings, shippers are also finding that more aggressive carrier rate negotiations no longer yield double digit savings and have no effect in controlling supply chain needs. The fact of the matter is more aggressive rate negotiations have never yielded better rates. The reasons for significant rate reductions have either been driven by market conditions and / or because the team did not go into the prior negotiation with all the market details and research and thus overpaid the prior year.

The strategy many shippers have taken to change their results for the better is bring a managed transportation service strategy into the equation through a well-respected logistics service provider (LSP).

An LSP not only impacts the direct transportation costs of a shipper through its ability to reach into its network of market knowledge and leverage pricing for its client base. In addition to price an LSP provides better on-time performance, which improves the shipper's customer experience and reduces fines. The way in which this is accomplished is through leading edge technology; having a firm grasp on the capabilities of carriers in the markets they serve; the ability to tap into extra capacity quickly through its thousands of carriers that are already approved and active in their database; and having the processes that drive repeatable performance.

Add to the above, an LSP operates the best industry technology that brings an abundance of data that its users can easily tap into to drive better real-time execution decisions throughout the supply chain, while providing a baseline of data to drive strategic decisions throughout the sales, purchasing, manufacturing, logistics and finance areas.

The strategic decision-making abilities found within the supply chain will in turn help shippers in reducing the amount of safety stock in the channel; better position inventory in the channel; free up capital required for to TMS system; and free up internal human capital to focus on its competitive advantage.

What is Managed Transportation

The most general description of a managed transportation service is the process in which a shipper engages an LSP to handle the day-to-day freight functions, in addition to driving big data analysis for the most

competitive bids and long-term logistics decisions. Now this partnership is outsourcing the freight function and while outsourcing non-core competencies has been a long-standing business strategy, outsourcing freight functions brings on several anxieties starting with the perception of losing control of what the C-suite believes should be a core internal competency and continuing from there.

Services Within a Managed Transportation Solution

The easiest way to put what services are within a managed transportation solution is through the below diagram. The diagram outlines each activity, with the base of connectivity, reporting, visibility, business intelligence, KPI's and analysis. Now the activities can be a la carte, meaning the settlement side of the service where freight audit & pay can be a stand-alone service, as can each of the five segments of procure, rate, plan, execute and settle.

Procure	Rate	Plan	Execute	Settle
• RFP and bid response management • Rating and capacity market intelligence • Carrier compliance and management • Finding carrier capacity	• Rating engine for all modes • Customer allowance management • Spot quote management • Routing guides	• Mode, equipment and carrier optimization • Load and route planning • Inbound and outbound optimization • What if analytics	• Load creation, tender and booking • Multi customer / carrier moves • Visibility and exception mgmt. • OS&D / Doc mgmt. management	• Freight audit & pay • Invoice and claims management • Complex cost allocation • FSC and accessorial management
Connectivity	**Reporting**	**Visibility**	**Business Intelligence**	**KPIs**

Reasons to Choose Managed Transportation Services

Every shipper is different as to why they choose the managed transportation solution, but the way they get to the decision tends to

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be the same. Before we get into the decision process though, let us go through some of the driving factors in a managed transportation service:

Financial and strategic benefits:
- Minimal capital investment.
- Rapid implementation, which provides a quicker ROI realization.
- Scalable solution for the future.
- Low cost pay-as-you go variable cost operations model.
- Collaborative environment for multiple users in various disciplines to communicate.
- Through the business intelligence tools move transportation from cost center to a strategic advantage.
- Reduce human capital required to maintain an internal freight department that can be re-deployed in other parts of the business.
- Reduce resources needed to implement an internal TMS.
- Outsource non-core competencies.
- Offload the risk of moving freight to the LSP.
- Reporting and analysis that open the shipper to data and decisions not thought to be possible or if possible, not easily done.

Industry benefits
- Full access to dedicated experts in the industry.
- Standardize the handling of goods and services to a repeatable process of success.

- Leverage best practices in 3PL transportation industry.
- Leverage carrier base and rates for significant cost reductions, while improving service.
- Bring additional capacity.

Software benefits
- System is already tied in with key trading partners.
- Automate manual processes.
- Tier one open architecture web platform that quickly and easily links with various internal and external customer platforms.
- Easily configurable software that can adopt to its users to allow them to access what is required for full transparency of the logistics functions and costs.
- Continuous rate and route optimization technology.

When to Bring Managed TM Service Strategy to a Business

While the benefits are numerous, there is the idea of timing and listed below are some of the drivers that cause shippers to begin to look for a better way:

- Service KPI's Suffering
- New Technology Required
- Increasing Logistics Costs, whether Internal or the Price of Freight Itself
- Project or Seasonal Volume Spikes that Cannot be Managed Internally
- Continuous Growth that Becomes Harder and Harder to Support Internally
- Business Model Changes
- Geographical Changes
- Business Matures
- Change in Key Personnel
- Launching a New Service or Product within the Business

Taking Transportation to a Higher Level
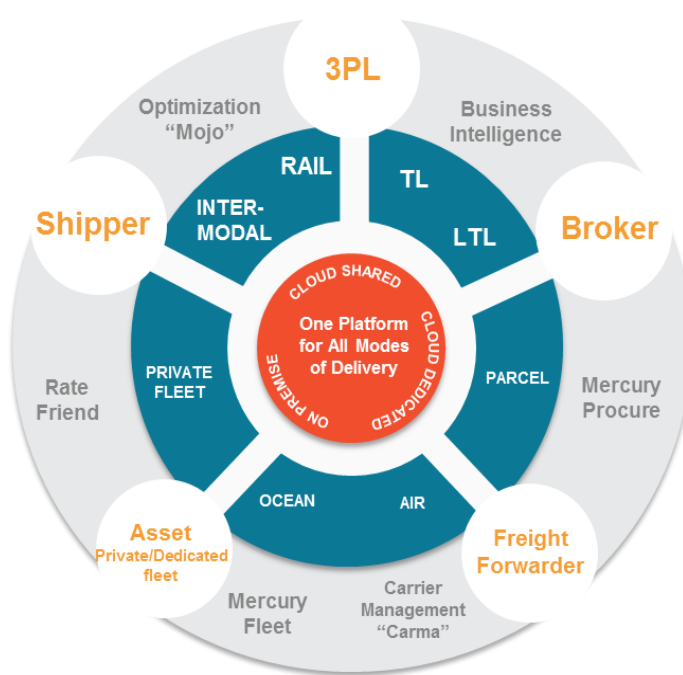
As the above diagram outlines, there are numerous stakeholders in a shipper's supply chain and that is just to get the shipment in motion. There is equally as many internal stakeholders sitting in the Sales, Customer Service, Finance and Procurement Departments. Add to it, the outbound logistics team also needs to satisfy the Buyer and their Receiving Department, while the inbound team needs to communicate with their Receiving and Manufacturing and / or Distribution group. Each stakeholder has specific requirements that the logistics team must fulfill for success, which often puts the logistics professionals in a game of three-dimension chess.

The good news in all of this is with the proper partner and technology all stakeholders can receive their information in a timely and accurate manner in the way they want it delivered to them. In the case of InTek Freight & Logistics, the platform used to deliver manage, deliver, and analyze the information is MercuryGate, which continues to place at the top level within the yearly Gartner Magic Quadrant report.

The point here is far more at stake within a supply chain than just the freight & logistics department. The supply chain is a board level discussion that needs to

operate at the highest levels because it is the lifeblood of any organization. The supply chain has basic operational activities and long-term strategic implications, and neither can take a back seat. So,

Strategic

Sourcing: LSP's are subject matter experts in the field of optimizing and managing supply chains. They also bring with them a vast network of carriers and other resources to bring the most capacity at the least cost for the shipper through the proper combination of current carriers and niche players to maximize performance and cost. At a strategic level, the LSP institutes KPI's into the program to ensure the performance of each carrier in the mix is working to the highest level throughout the year. When a carrier begins to stumble, the KPI's allow the LSP to jump quickly to correct with the carrier and supplement the required capacity.

A component of sourcing is network design, which is the analysis of deciding the strategic distribution points for the best service mode and price, while also uncovering the optimization opportunities within the daily freight to execute multi-stop truckloads, consolidations, and pooling opportunities for the LTL freight component of the shipper.

The last component within the strategic side of logistics is the sourcing and contract management to gain the most level of consistent service and ensure consistent delivery of service performance.

Tactical: Capacity Management and Resource Management are critical in today's ever-changing transportation marketplace. LSP's are in the market every day buying and selling logistics services, which provides them a constant barometer of the ever-changing price and balance issues. A key tactical component also includes rate and tariff management, which requires careful review and updating for proper routing and rating. Monitoring insurance and key safety ratings of the carriers, within the client's portfolio, are extremely important to avoid liability issues. The liability issue alone is why some shippers choose the managed

transportation service option.

Operations: Planning, execution, monitoring, and final delivery are the critical actions to an optimized transportation solution. Indispensable to planning is the rating engine that takes the theory developed at the strategic level and brings it to life through the optimization module for rate and route decisions to deliver the best price and service available.

EDI is a key component to automating much of the transactions with carriers from tender to payment, which then allows the operations team to monitor for exceptions around on-time delivery and cost. An additional value of an LSP is that these EDI connections are available out of the box making for a much quicker and less costly implementation.

The other side of EDI is to be able to communicate quickly and accurately to all internal and external stakeholders of the freight. XML is also an option and for those small to medium size shippers that may not have all the technology can transfer flat files and bring into the solution web portals for online communication. The point to all the electronic interchange is to provide information quickly in the manner the stakeholder is looking to receive the information to make for the most transparent amount of information on the supply chain because in many cases the information is as important as the shipment itself.
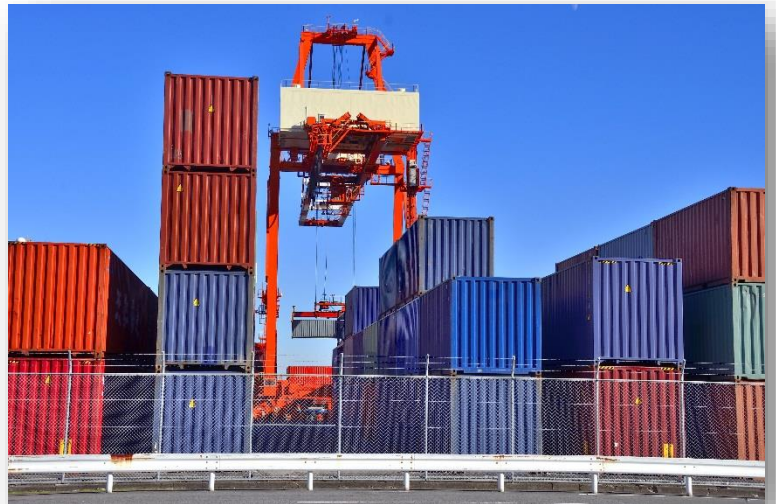
Even with all today's electronic communications, many times stakeholders just want a snapshot of the current activity, so the LSP will send out automated emails throughout the day in the format uses request the

information.

The last piece of an LSP solution is an automated and accurate freight bill processing. EDI files used to be the method of choice for submitting invoices because of the mounds of paperwork, but then there was always the problem with the support documents. Fear no more as OCR technology is to such a high level that carriers can email in their invoices, along with the required back-up. From there the LSP does a three-way match within its systems and when the audit is clear the documents are uploaded into the LSP's TMS for easy retrieval by the users. The customer is in complete control as to how they want the costs to be allocated within their business once the bills are paid.

Real-time Business Intelligence and Evaluation: The amount of data that an LSP brings to the equation through its technology expands awareness and provides for better decision making on a daily, weekly, monthly, and yearly basis.

The data provides tremendous value that LSP's deliver beyond controlling a single cost line on a P&L. The data is easily managed for strategic, tactical, and operational level reviews to continue to drive overall value of the managed transportation program.

Measurements and real time information power overall improvement. As the saying goes, if it's measured it will improve. With an LSP, beginning day one, companies have information available at their fingertips than they could ever imagined. They key is starting small and paying attention to the KPI's defined as being important at the early stages and build from there.

The Finanacial Value of a Managed TM Program and How to Calculate the ROI

Below is the typical savings obtained in the various functions of the freight cycle, along with the data required to drill down to the specifics in your organization.

Planning & Optimization

3 – 12% Savings Opportunity

- Analyzing Shipments, Rates & Constraints
- Optimal Mode/Carrier/Rate/Route

Data inputs include:

- Annual freight spend
- Projected percent of loads where additional consolidation opportunity exists
- Annual outbound freight spend
- Annual inbound freight spend

Execution & Advanced Visibility

2 – 5% Savings Opportunity

- Automated Execution Tasks & Workflows
- Rate/Capacity/Routing Guide/Carrier Performance Management

Data inputs include:

- Number of carriers in carrier base
- Number of FTEs managing carrier base
- Number of carriers onboarded annually
- Number of FTEs who onboard new carriers

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Settlement

2 – 5% Savings Opportunity

- Self-Billing / Match-Pay

Data inputs include:
- Number of FTEs in accounts payable for transportation
- Annual invoice count
- Average dollar value per invoice
- Percent of invoices with a discrepancy

Procurement

3 – 10% Savings Opportunity

- Secure/Maintain Durable Rates/Capacities
- Reduce Broker Dependencies

Data inputs needed:
- Annual freight spend
- Number of transportation bid events per year
- Number of FTEs managing bid events
- Number of FTEs managing contracts
- Annual outbound freight spend
- % of loads covered by carriers not following route guide
- Annual inbound freight spend
- % of loads covered by carriers not following route guide
- Number of FTE executing loads (tendering, booking, tracking, and customer service)
- Average number of penalties per year
- Average cost per penalty

Below is a summary of the flow of documents through the entire life of a shipment.
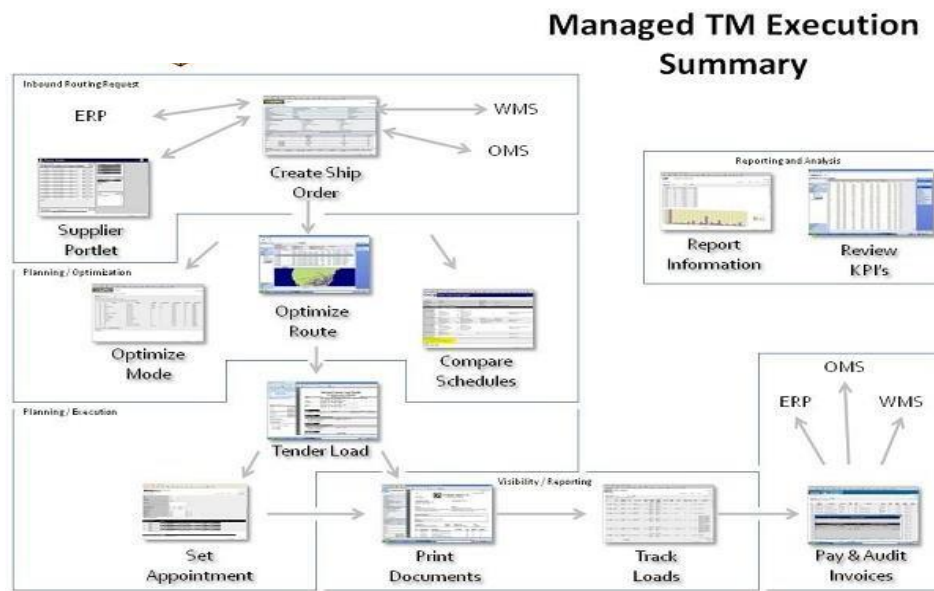
Inbound Transportation – The Next Frontier

While a great deal of importance is placed on outbound shipments, an even greater opportunity exists to optimize a company's performance through better inbound shipment management.

Procurement, order optimization, visibility, improved KPI's, controlled process and compliance are drivers to a smooth inbound process that: decreases safety stock that also lessens warehouse requirements; lowers transportation costs through a dynamic inbound compliance routing guide; reduces transportation expense from volume discounts, consolidation, and pooling opportunities; increases revenue and customer satisfaction with less stock outs; decreases overhead; and increases productivity.

No one would consider driving a car with a blindfold, but that is exactly what many companies do today with their inbound process. It is much easier to measure and control the outbound process, which is simple in comparison to the numerous moving parts, players, compliance, and synchronization

challenges involved with the inbound movement of freight. Inbound product is the lifeblood of any organization and vendors try to make it easy by providing a landed cost for their products, which typically means they are adding a substantial profit margin for freight and burying it in the total cost of the product. Some companies try to address their inbound challenges through routing guides, but these static guides are not well followed by the vendor community. **A LSP's inbound management provides a dynamic platform where vendors call directly into the team, which books and optimizes the freight movements for the day based on lane volumes and the most current carrier agreements.** Through the optimization process, consolidation opportunities are found to further improve cost and transit.

Through a LSP's inbound solution, **all stakeholders have the information at their fingertips via a single platform and can communicate in a collaborative environment.** Purchasing, Vendors, Carriers, Accounting, Receiving and Traffic can exchange information collaboratively to optimize how product enters your operation and is transferred into a saleable state to quickly improve the order to cash cycle.

Implementation

Once the managed TM program is outlined to meet the shipper's requirements for both internal and external customers, implementation begins typically takes between 30 to 90 days. The time is a function of the size and complexity of the shipper.

Unless there are significant issues around a client's carrier base, the suggested path of implementation would be to start with the client's current carrier base. As shown previously in Exhibit 1, **the greatest savings come through consolidations, private bid boards, better visibility, and control, not through squeezing the carriers a little tighter, so why introduce more complexity coming out of the gate.** Additional savings in rates will

come later, once the LSP has collected enough actual information so that the LSP and the client can be armed with critical data as they enter negotiations. Good carrier relationships are invaluable, in that, their institutional knowledge cannot be communicated through a spreadsheet. The incumbent carriers know their client's business inside and out, which should not be discounted in a full start-up. Using the incumbent carriers for the first 60 days, not only provides for a smooth transition but it also allows time to capture the data that will be used to build a strong bid package that the what-if analysis will be run off to evaluate actual savings, not averages of averages through spreadsheet analysis.

After the new bids are awarded, an internal private bid board for qualified carriers will be assembled for daily operation spot bid opportunities that may exist on any given day. This approach helps to drive prices down further, as carriers work to better balance their fleets on a daily basis.