WHITE PAPER

Controlling Surface Transportation Costs

Six Steps Toward Improved Collaboration

PITT OHIO EXPRESS

Logistics MANAGEMENT

Trucking networks are complicated matrixes of equipment, driver availability, and capacity all layered by service requirements and costs. The best trucking operators are the ones that can best match up their available capacity with enough freight to make their networks run in balance—or as close to 100 percent full in both the headhaul and backhaul lanes.

Cost pressures are rising for all trucking companies. A new Class 8 truck costs around $125,000, an increase of nearly 40 percent over the past five years. Fuel, insurance, terminal real estate, driver pay and healthcare costs are all increasing at alarming rates. Even the most efficient carriers are not immune from a bevy of factors affecting their internal costs.

Besides labor and equipment, trucking fleets are facing what U.S. Chamber of Commerce President and CEO Thomas Donohue calls a "tsunami" of new, tough safety regulations that mostly concern truck driver hours of service (HOS) and availability.

Noel Perry, an economist with freight forecasting firm FTR Associates, estimates the current driver shortage at around 100,000, but warns that number could double in upcoming years due to increased driver standards, mandatory drug and alcohol testing, greater scrutiny of drivers' records, and aging demographics.

The bottom line is that driver pay has been rising, and is expected to continue; and due to the recent changes in driver hours of service and new laws requiring electronic logging of driver miles driven, driver productivity is decreasing. In short, it's going to take more drivers to handle what the American Trucking Associations (ATA) predicts will be a surge in surface transportation volumes through 2020 and beyond.

Importance of shipper/carrier collaboration

Freight forecasting firm IHS Global Insight predicts that trucking's share of total tonnage will rise gradually to 70.9 percent by 2020. Despite slight growth in rail and intermodal traffic, nearly 80 percent of all U.S. communities are served exclusively by truck.

While carriers can try to pass on some of these higher operating costs to customers, the cutthroat marketplace will simply not allow anything close to double-digit percentage rate increases. So, the key to controlling carrier costs, and therefore shippers' trucking rates is increasing the level of collaboration between the shipper and carrier.

Increasingly, the truck is becoming the last, vital link in a shipper's ever-dynamic supply chain operation. Without timely deliveries, the shipper's supply chain operation can literally come to a halt. Today, trucks are carrying inventory that was formerly housed in expensive warehouses and are now making multiple deliveries—often on the same day—to keep these efficient supply chains humming.

"I would say that the best trucking operators are morphing into supply chain optimizers for shippers," says John Larkin, the veteran trucking analyst for investment banking firm Stifel Inc. "They are now offering all the services a customer may need to run an efficient supply chain."

Whether it's full truckload (TL), partial less-than-truckload (LTL), intermodal, or some combination of all three, shippers can take proactive steps to better control their surface transportation costs—steps that can transform a shipper's transportation operation and improve their carrier relationships across the board.

In our current environment of ever-tightening capacity, shippers who are collaboratively working with their carriers are nearly certain to get priority when it comes to peak periods of freight demand.

Unlike, say, the personal computing industry where innovations breed lower cost and higher quality, trucking's costs are on a perennial uptick. But shippers have a huge say in how they fit into a carrier's cost structure.

"The only way shippers can get better service is through carriers getting more productivity out of their work force," says Satish Jindel, principal of Pittsburgh-based SJ Consulting, which closely tracks trucking industry trends. "This industry is

very labor-, equipment- and fuel-intensive. Those costs are only going up and shippers need to take every step they can to help them."

So, let's examine six ways that shippers can help their carriers mitigate these costs and gain the additional rewards of better service, lower rates, and a shared gain in efficiencies.

Six steps toward improved collaboration

That 100 percent figure is a goal, of course. In reality, most carriers don't nearly fill all of their trucks all of the time; however, the most efficient operators come close. And with the help of their shipper customers, they can increase that load factor to help mitigate some of these rising cost pressures.

"There are a lot of inefficiencies in transportation networks," says analyst Jindel. "The only way to eliminate them is a collaborative effort between shippers and carriers, and that requires elaborate, customer-friendly information sharing with a level of trust."

If done correctly, Jindel says that it can result in a "win-win-win" for all three key players in the supply chain, meaning:

- Carriers gain great efficiencies through better use of their network through the most effective use of equipment, driver availability, and network design;
- shippers save money through lower freight rates, better handling of their freight, lower claims, and better service; and
- consignees receive the freight in a more orderly time frame with predictable deliveries at the most opportune time.

Let's dive into the six areas where shippers and carriers can work collaboratively to drive down a carrier's cost, increase levels of service, and mitigate or even lower truck rates.

1 Consider mode and lane optimization

Mode and lane optimization are key steps in improved collaboration. Simply put, that **mode optimization** means putting the right-sized shipment in the right-sized mode, whether it be LTL, TL, or intermodal. The other constraint here is speed. If a shipment doesn't have to be there right away, carriers would advise shipping it intermodal—provided rail service is adequate.

However, carriers and shippers don't always do what's best. Instead, they do what's easiest. Shipments that are considered "in between" and could go TL often wind up on more costly LTL trucks. Freight that could go long-haul on an intermodal rail line haul end up in truck trailer further straining equipment and driver availability.

Shippers are advised to know their minimum charges, and be aware that your freight rate varies by distance. In this case, it pays to be more scientific and analytical in your choice of modes. If it's a very small box, consider going with a package carrier instead of LTL.

The same applies for heavyweight shipments between 8,000 pounds and 12,000 pounds. How dense is that shipment? Instead of an LTL move, can several shipments be combined with other shippers' freight to produce, say, a three-stop TL delivery solution to eliminate costly destination handling costs.

"It's just a better use of resources," says Geoff Muessig, executive vice president and chief marketing officer for Pittsburgh-based Pitt Ohio, a major trucking and transportation services provider. "Put the right-size shipment on the right-size truck."

Lane optimization means understanding where the carrier has an imbalance. Some carriers are looking for business and will offer more attractive rates on certain geographic lanes; however, it's important that shippers realize that not all carriers have the same imbalance on the same lanes.

Pitt Ohio, for example, has a lot of legacy business in and out of its Pittsburgh base. UPS Freight, which was founded as Overnite Trucking in Richmond, Va., on the other hand, runs a lot of freight in and out of Virginia. What works most efficiently for Pitt Ohio's network might be different than what fits best into UPS Freight's network.

The best advice is for shippers to optimize by lane, not by convenience. While it might be easier to give all your freight to one carrier, that actually may not be the most efficient decision—it may actually be increasing that carrier's costs.

Shippers should also consider fully leveraging

their transportation management systems (TMS) to assign freight most efficiently for lane optimization and use the technology to create economies of scale at time of pickup.

It's probably a mistake to assign 10 different shipments to 10 different carriers—that is short-sighted. While it may save some pennies today, it could cost big dollars in a shipper's long-term freight rates due to the costs associated with single shipment pickups.

In short, know your carriers' lane imbalances, as well as their wants and needs before you make your routing decisions

2 Improve your carrier relations

The more a shipper can relax the constraints over how and when a shipment is picked up and the greater efficiency the carrier can have. In truth, not everything has to be moved in a next-day delivery window. While a carrier can deliver freight by 10 a.m. the next day, the reality is that carrier's cost is inevitably going to rise through such tight delivery constraints.

"Faster shipping almost always requires higher costs," says Jindel. "It's just an airplane costs more than driving. Shippers need to be cognizant

Harry & David arrives at a sweet transportation solution

In logistics and transportation, there are basically two types of business relationships—transactional and longer-term partnerships.

As the complexity and demand of surface transport grows, and the supply of adequate capacity tightens, both carriers and shippers say that there are huge long-term benefits from eschewing transactional business for longer-term relationships. They also say that these relationships often pay immediate and substantial benefits.

"Relationships matter," says Jeff Brady, director of transportation and logistics for Harry & David, the iconic specialty gift and fruit retailer based in Medford, Ore. Brady was introduced to Pitt Ohio through his relationship with a less-than-truckload (LTL) carrier that was also part of the "Reliance Network," an eight-carrier LTL network of regional carriers that have linked up to provide seamless national and Canadian LTL service.

In 2008, while working at Petco Animal Supplies, Brady had a truckload need in the Pennsylvania area, near Pitt Ohio's home base. Brady met with Pitt Ohio officials and the two parties took a deep dive into Petco's truckload challenges and needs. Following the meeting, he found that Pitt Ohio's ECM truckload division met his need, and Brady went to work building the relationship for the long term.

When he shifted over to Harry & David in 2013, Brady needed assistance with multi-stop truckload retail deliveries to a portion of its 85 retail stores. He recalled that Pitt Ohio filled that gap in his previous position, so he made the call.

"Right away they offered the ability to do the multi-stop truckload that I needed—and could do so within the requirements I was outlining in detail," Brady says.

Brady needed to implement pool distribution of some of Harry & David's store freight in the middle of its busiest holiday season; and he did so by forming optimized truckload moves from its Ohio distribution center to a specific population of stores.

This enabled Brady to minimize outbound truckload expense and add scalability to Harry & David's retail delivery network by combining Pitt Ohio's LTL and ECM truckload services. ECM hauled the truckload lane to Pitt Ohio's LTL terminals and then broke down the freight for distribution within Pitt Ohio's traditional LTL network.

"This was Pitt Ohio's core competency," says Brady, "and we worked together to make sure the moves made sense for both parties."

According to Brady, the relationship worked due to the fact that both sides were open and honest. "I had lane specific needs and they had empty miles and capacity in their network. They, again, proved themselves with their service and communication."

The relationship has flourished as both parties collaborated on Harry & David's outbound store schedules to drive out cost and create efficiencies in the network through peak season. The parties now visit on a regular basis to tweak needs based on changes in store schedules and mutual requirements.

"The relationship is very open and collaborative and that breeds trust and mutual success," Brady says. "We'll continue to focus on how to grow the partnership for the betterment of both parties."

of that fact when they ask for faster service."

If a shipper can relax those constraints and give the carrier increased flexibility in how and when that freight is delivered, operating costs and rates can decline dramatically. With the technology available today, many shipments are moving at faster speeds than consignees actually need. If a consignee doesn't need delivery until three days from now, don't ask for next-day delivery. In short, ship it when they need it, not when they want it.

Jeff Brady has been a user of Pitt Ohio freight services for nearly a decade, both at Petco and now as director of transportation and logistics for Harry & David, the specialty fruit and gift retailer.

"Pitt Ohio and its ECM [truckload division] were both very open and honest about their capabilities," Brady says. "I was honest in my approach to committing to the process of helping them to help me. I had specific needs and they had empty miles in their network."

The result has been a win-win for Pitt Ohio and Harry & David. In store, on-time delivery performance has gone beyond Harry & David's metric goal of 97.5 percent, says Brady. "Having built a successful relationship previously with Pitt Ohio and being proactive about planning and forecasting really helped us to help them be successful and meet my needs this past holiday season," he said.

3 Gain visibility into shipment forecasts

Sharing a more accurate picture of shipment forecasts allows carriers to plan their work schedules rather than simply showing up at a customer dock and being surprised by the volume of shipments.

If a carrier knows precisely what's coming, it can plan the appropriate resources for line-haul needs in advance and optimize its resources through its entire network.

Again, the airplane analogy comes to mind. Nobody makes a reservation with an airline and reserves the entire plane. Instead, we buy the one, two, or three seats that we need. The same is true in trucking. Planning ahead saves money, as Harry & David discovered.

"We collaborated on our outbound store schedules to drive service and efficiencies," Brady explains. "Later we would re-visit on an annual basis to see if there were any changes in our stores, DC operations, or in the carrier's fleet. We would then tweak things on both sides collaboratively to drive mutual efficiencies and avoid rate increases. The partnership was very open."

Jindel says that he would love to see the entire LTL industry be more proactive in telling shippers when precisely pickups and deliveries will be made. UPS and FedEx do exactly that in the small package and parcel side of the business.

In parcel freight, 95 percent of all parcel manifests are submitted electronically before that package is picked up. In LTL it's about 30 percent. "If LTL would get to 50 percent or 60 percent that would help carriers considerably," Jindel adds.

4 Collaborate on rates

When shippers find ways to take costs out of a carrier's network through easing constraints on shipments, they're increasingly eligible to obtain gain-share savings with the carrier. Another way to avoid annual rate increases is through multi-year contracts that provide slightly below-market rates in return for long-term commitments for volume and service.

If carriers can plan on having that business for one, two, or three years they can optimize other business around your business. In nearly all cases, carriers say, shippers benefit from a carrier's ability to have a long-term, strategic partnership rather than a transactional one that comes and goes.

It's simply a matter of shippers being able to take a strategic view rather than a short-term transactional view. Shippers must be more inclined to take this approach in the market with driver availability tightening and other costly restraints affecting service and rates. "Any relationship that works longer term is better than transactional business," Jindel adds.

5 Minimize pickup and delivery times

A truck driver is an extremely expensive resource. It's estimated that a driver and his truck costs $100 per hour in the LTL sector—but that $100 might be the low end of cost if a carrier is looking at its actual opportunity cost.

Detaining that driver an extra hour could actually cost much more than $100 if one looks at what other work that driver could have accomplished in that time. For example, if that driver is detained from, say, 5 p.m. to 6 p.m., he might have been unable to go to another location to fill that truck.

Now instead of operating a fully loaded truck, he returns to the terminal half full. The carrier might have to chase a lower-paying load to avoid returning a leg of the trip empty—and the cost just snowballs. That certainly is the case if the driver is detained during the peak late afternoon and mid-morning times.

While Brady was working at Petco, the pet specialty retailer, he worked with Pitt Ohio and ECM collaboratively to help the carrier fill empty miles with its inbound traffic to its New Jersey distribution center (DC). In essence, he was creating his own capacity for previously established outbound lanes to stores with the same carrier.

This collaboration led directly to improved trailer availability to vendors for his pickups, inbound service to the DC, and, in turn, on-time loading and dispatch for outbound lanes. Doing this collaboratively maximized Pitt Ohio's use of its drivers and fleet and kept Petco's costs very competitive for the services and capacities committed.

"By creating this turn, we lane-matched and capacity-matched," Brady says. "This created the rate improvement and cut out unplanned accessorial charges such as driver detention at our vendors and DCs. We collaborated with the stores to expedite a clean and on-time delivery network. "Once this was accomplished, we started to get down to helping each other and engraining ourselves with one another," Brady explains. "It was the creation of a foundation of a true partnership."

6 Improved packaging and crating

Working toward improving packaging and crating helps in two areas: reducing freight clams and improved shipment density. If a shipper is moving an uncrated piece of steel, for example, it raises the claims profile not only of that steel shipper, but other customers as well. That's because that piece of uncrated steel could, perhaps, puncture another shipper's hazardous materials, creating cleanup problems.

Those types of shipments need to be crated, and that has to be done for each shipment of its kind. "It may cost that steel shipper $20 to $30 for a crate, but they will find that they save that much or more in rates in the long term," says Jindel.

Improved packaging leads to improved shipment density, which can lead to better equipment utilization and lower freight rates. If packages can be double-stacked, do so. Create packaging that is the most efficient use of trailer space, Jindel says.

So despite relentlessly higher cost of operation by their carrier partners, shippers have a huge say in creating the most efficient freight network possible. Communication and collaboration are the keys. Then comes better planning, which allows carriers the most efficient use of drivers and equipment that ultimately leads to better load factors and fewer empty miles.

All these actions create a better customer profile, which ultimately means lower rates, assured capacity, and better service. It's a win-win-win for all. ☐

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Contact Info: