

OPTIMIZING TRANSPORTATION COSTS IN THE DIGITAL SUPPLY CHAIN



With 7 tips for smart shipment execution

Optimizing Transportation Costs in the Digital Supply Chain

For many companies, logistics is an important key to business success – and a significant cost factor. According to a 2013 Capgemini study on third-party logistics, logistics expenditures amount to approximately 12% of total sales revenues for U.S. shippers¹. About one-third of these costs can be attributed to transportation. The price range for logistics services is huge: For sea and air cargo, the cost of one service might be two times greater than another comparable service. For road freight, pricing varies by up to 30%². Logistics and supply chain managers are burdened with the delicate task of reducing shipping and processing costs without putting undue price pressure on their carriers – all while maintaining optimal shipping quality and levels of customer satisfaction. Through a careful selection process, automated logistics solutions can increase efficiency and lower shipping costs with a high degree of reliability for both shippers and carriers.

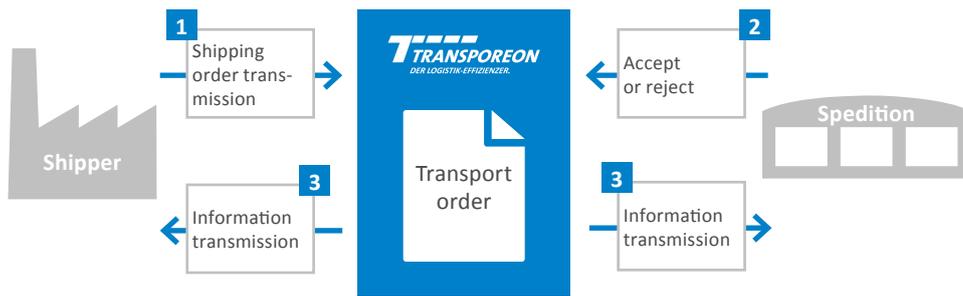
Optimizing carrier selection can be crucial in improving your logistics strategy. Fortunately there are several logistics platforms that can help streamline processes such as bid invitations, carrier selection and tendering. Freight orders can be transmitted directly from the in-house system, such as a TMS, to a shipment execution system, and then automatically forwarded to the contracted carrier based on a set of pre-defined rules. The carrier then has the option to accept or reject an assigned order.

This process is known as fully automated shipment execution and it's used to quickly send freight orders to the most suitable carrier. Carrier selection can also be performed on online cloud-based systems, which often offer access to a larger pool of potential carriers and do not require IT or other infrastructure support since access is maintained through an internet login rather than a bolt-on interface.

In most systems, shippers can fully and flexibly define criteria according to which a transport order is awarded. Companies can use these criteria to optimize costs by configuring the system to always query the carrier with the lowest price for the respective shipment first. Depending on company requirements and the selected system, other criteria, such as assignment according to fixed quotes or rankings, are also possible.

¹ https://www.capgemini.com/resource-file-access/resource/pdf/2013_Third-Party_Logistics_Study.pdf

² German Federal Association of Materials Management, Purchasing and Logistics; BME: BME benchmarking study "Land, Air and Sea Freight: Enormous Price Range Shows Potential for Negotiations". Press release dated October 16, 2003. Accessible at: <http://www.presseportal.de/pm/43266/490679>



Simplified representation of automatic shipment execution

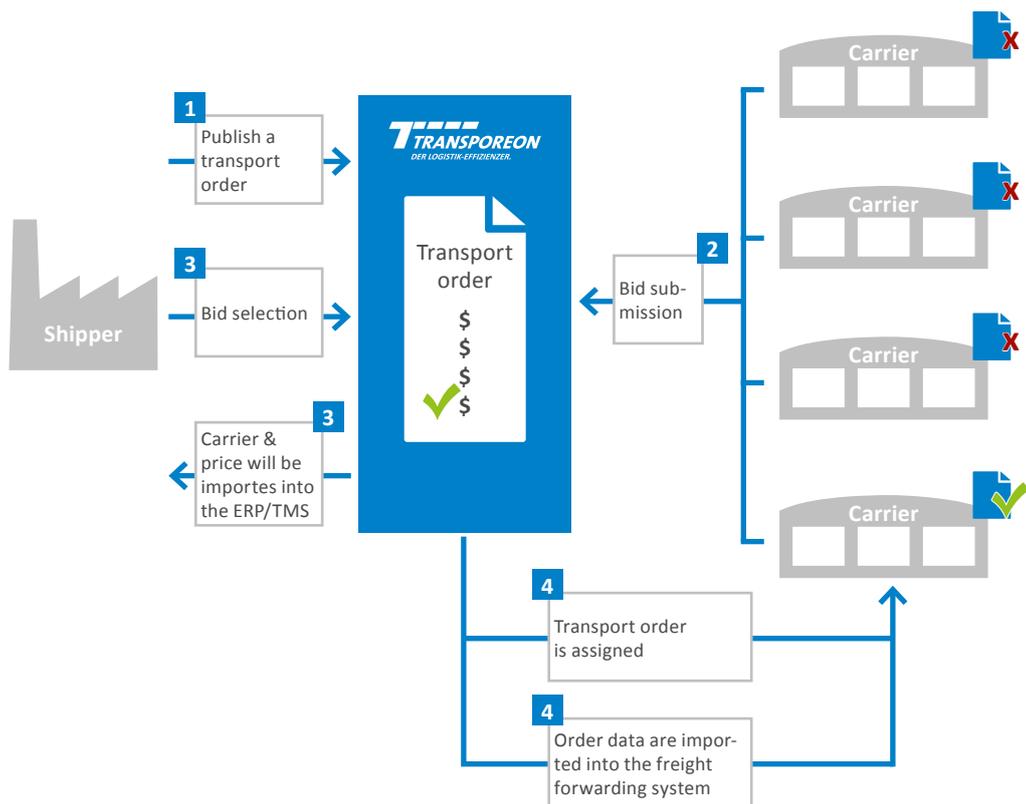
1 Combine fully automated shipment execution with an e-sourcing process

E-sourcing platforms significantly improve the RFQ process for freight contracts. With standardized offer tables, these solutions enable simple, automated execution of complex multi-modal transport tenders and may also offer access to comprehensive databases containing additional relevant service providers. After receiving bids, evaluations and smart simulations can be executed within the platform with the click of a mouse. If the sourcing system is compatible with the assignment platform, the shipment execution system can later retrieve the contracted freight rates and then utilize that information to automatically assign individual shipments.

The benefits of fully automated shipment execution

- ✓ Up to 30% savings on processing costs
- ✓ Assignment of up to 150 truckloads per day and per dispatcher
- ✓ More time for optimum transport planning and troubleshooting
- ✓ Increased customer and supplier satisfaction
- ✓ Reliable carrier feedback in minimal time
- ✓ Ability to accept the most advantageous contract
- ✓ Carriers adhere to all quotes
- ✓ Audit-proof documentation

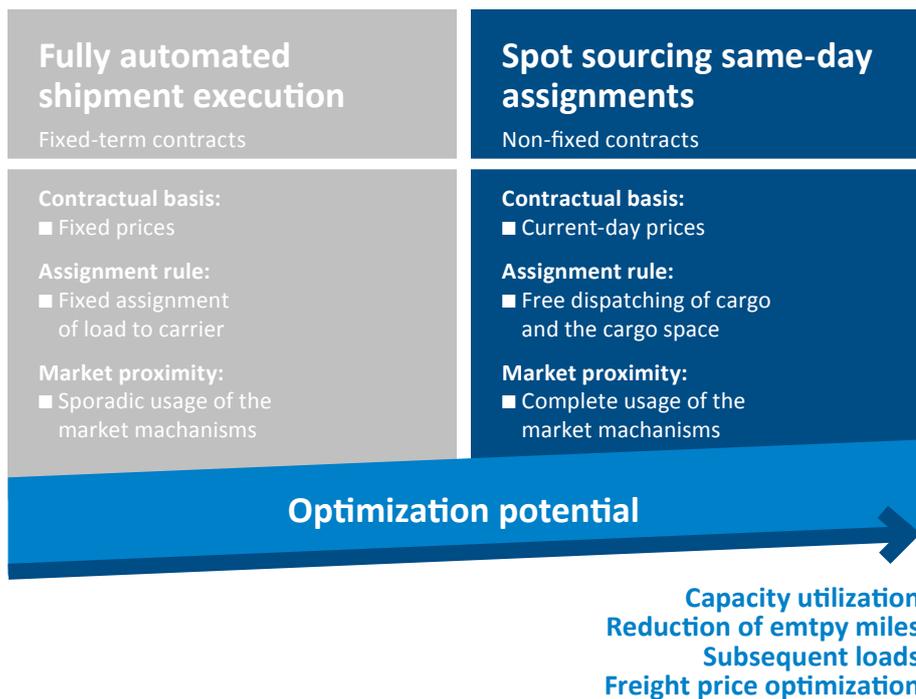
Alternatively, carriers can be booked without fixed contracts on a short-term basis by spot sourcing single loads to carriers with the best price-to-performance ratio. In a capacity bottleneck situation, this type of assignment allows for flexible and efficient shipping, which can also reduce empty miles. It's possible to leverage web-based logistics platforms to efficiently post a kind of "mini-tender" within a closed pool of carriers or to a wider group by using one of the public internet freight exchanges.



Spot sourcing single loads by means of mini-tender

Spot sourcing reduces shipping costs by up to 10%

Networking can help increase optimization potential, both in terms of costs and processes with regard to shippers and transportation providers. “Collaborative commerce” is particularly worthwhile in the field of logistics. Same-day transport assignment systems, for example, enable transportation providers to find and organize backhauls or triangle traffic. This leads to a reduction of empty miles for the carrier, which can be reflected in lower freight prices for the shipper.



Optimization potential for spot-market freight bids

The benefits of same-day shipment execution on the spot market

- ✓ Reduction of empty miles by up to 13%
- ✓ Transportation cost savings of up to 10%
- ✓ Optimal freight prices with less effort
- ✓ Improved delivery
- ✓ Effective route planning
- ✓ Rapid response to transportation market fluctuations

A mixed strategy can often work for most shippers: secured cargo space under a fixed contract for most loads in combination with others under a mini-tender on the spot market for same-day, flexible sourcing, which often resolves issues with automatic assignment. Ultimately, the right assignment strategy depends on the transportation structure and logistical requirements of your company.

Deciding between a closed tender and an open freight exchange

For spot-market assignment, two different kinds of systems can be leveraged: a kind of “mini-tender” within an established pool of carriers or an online freight exchange accessible to all transport providers. The majority of shippers rely on closed systems in which proven partners ensure high transport quality, but there are distinct advantages to open freight networks:

Closed bid tendering	vs. open freight exchange
Manageable number of transport service providers	Higher number of transport service providers
Minor control effort necessary	Higher control effort necessary
Track record with regard to delivery quality	Quality difficult to estimate
Relevant cost savings in transport costs	High potential for savings in transport costs
Price transparency for the shippers within the forwarder pools, higher confidence level	Price transparency for the entire market
High transparency of the delivery status	Transparency is often not assured

Comparison between closed platforms and open freight exchanges

2 Include your customer's perspective in the decision

What are your customers' requirements regarding delivery quality? Some challenges – like high delivery reliability (such as just-in-time deliveries), additional requirements for certain equipment or transport vehicles, elaborate securing of loads, or special status updates (such as advance notification to the recipient of the goods) – may require a closed carrier pool.

Internal connectivity increases process efficiency

An efficient shipment execution system – regardless of whether it is fully automated or bid out on the spot market – should be based on an intelligent integration into existing IT systems for maximum process efficiency. Look for transport assignment platforms with an ERP system interface or a plug-in, or work with a reputable IT service provider who can create a custom integration.

3 Connecting with dock scheduling

In addition to connecting to the ERP system, it can also be helpful to network a dock scheduling system into the technology mix. Assigned orders contain a booking number by which a timeframe for delivery or pickup can be scheduled electronically.

4 **Enable automation for your carriers too**

The more efficiently your carriers work, the better it is for you. When selecting a transport assignment system, make sure that it has an interface to other common systems or applications, which will allow your service providers to optimize their processes. The ability to automatically import order data and tenders from your system, for example, prevents data-entry errors and frees up personnel resources that can instead be leveraged to benefit other areas of the transaction.

5 **Cloud solutions provide real-time transparency for all logistics partners**

Cloud-based shipment execution systems can provide transparency on the status of a shipment to all parties and don't require lengthy set up or maintenance of complex interfaces. Usually under continuous development within a set of industry best practices, cloud solutions often offer access to a large pool of logistics service providers without the need for difficult system updates. Everyone – from the shipper to the logistics service provider to the customer – is able to jointly process the transport order in real time. With a shipper-specific system, on the other hand, communications end on premise, limiting the communications channel with logistics providers and inbound or outbound destinations.

6 **Mobilize the entire program**

In the past, the execution process ended with the carrier's dispatcher. Today, there are mobile solutions that extend the order processing into the cab of the truck to integrate the driver into the process in real time. This digitalization allows all parties to access current information on the freight order. Now the status of a delivery can be called up at any time, the recipient can be automatically informed in the event of any problem and electronic proof of delivery documents can easily be created.

7 **Provide a baseline with accurate reporting features**

Reporting and controlling are important factors for optimizing shipping costs. Many shipment execution systems have reporting capabilities that can help provide crucial KPIs for your logistics department. All-in-one system reporting can quickly calculate average prices per truck, total costs, average costs per shipment, price differences between the highest and lowest offers, the reliability of the service provider and more.

Optimize your costs with a shipment execution system

Manual shipment execution ties up important resources within the logistics department. Telephone requests from carriers and brokers, transmission of freight data via email or fax, continual queries to clear up incomplete information and correct errors all result in less time for dispatchers to plan shipments or provide great service to your customers. The use of a shipment execution system relieves dispatchers and provides several additional advantages.



Isn't it time you brought your logistics processes into the future? Call us today to find out how to leverage next-generation shipment execution systems to control costs, increase efficiencies and provide transparency both internally and to your carriers, or visit

<http://www.transporeon.com/us/live-demo/>