

Transportation Management

The Last Untamed Frontier in Operation Efficiency and Cost Reduction

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Widely adopted and implemented by Fortune 500 companies, Transportation Management Solutions have proven their ability to drive a substantial ROI. Then why is it that so many mid-sized organizations are slow to adopt comprehensive transportation management initiatives that would shave millions of dollars costs per year off of their bottom line?

Transportation Management Systems differ substantially from other technologies that are typically on the IT radar screens of most companies. As a result, many high value, quick ROI TMS initiatives start, stall, and get bumped down the priority list in favor of those technologies and solutions that are more widely recognized as traditional, safe investments. Instead, in order to address their distribution operations, companies default to highly simplified transportation workarounds that will forever leave millions of dollars in extra costs in the distribution model.

The purpose of this discussion is to help illustrate what these differences are and to illustrate that with acquiring a high return, low risk Transportation Management solution is more easily attained than commonly thought.

We have identified three factors that make a TMS initiatives different from other IT projects. These differences increase the difficulty in determining the true value of the solution and exactly what solutions are best suited for individual companies needs.

1. The definition of TMS is often unclear. Ask ten people what a TMS is and you are likely to get ten different answers. Ask people what a WMS is and you will likely get one. The reality is that the term TMS is a categorization of solutions and not a solution in and of itself. This means that before any organization can begin to understand the impact of a TMS, they need to define what TMS means for them, their business and their corporate objectives. This is not an easy task when you consider the next point.

2. Senior management is often quick to delegate ownership of transportation management to the process owners. It is difficult to identify a single process owner that has the visibility and the mandate to consider the positive or negative impact of transportation management strategies and costs throughout the entire fulfillment lifecycle. Transportation Management has a direct impact on the cost and effectiveness of the following processes:

- ◆ Customer Pricing Negotiation and Agreements
- ◆ Customer Fulfillment model negotiation
- ◆ Carrier Negotiation
- ◆ Order Entry Decisions
- ◆ Routing Decisions

- ◆ Carrier Selection / Cost decisions
- ◆ Fulfillment Planning
- ◆ Shipping Execution
- ◆ Revenue recognition
- ◆ Freight Payment
- ◆ Financial Accruals
- ◆ Data Analysis and Reporting of Fulfillment activities and efficiencies

Transportation Management crosses multiple processes and multiple process owners. Strategies adopted to create synergies and efficiency across these processes rarely include the impact of transportation management on and between each process, yet it is the common thread that ties them all together. This, in and of itself, creates most of the substantial benefit a comprehensive TMS strategy can deliver. No one is managing transportation throughout the entire fulfillment lifecycle making Transportation Management the last untamed frontier in operational efficiency and cost reduction.

The reality is that your Transportation Management strategy, technologies and capabilities have a profound impact on cost of goods sold, customer service, revenue, shareholder value and your competitive advantage. An effective transportation management strategy has to start with the person who owns financial performance – the CFO.

3. The TMS software market is highly fragmented, with no dominant vendor or “one size fits all” solution. Adding to this fragmentation is the over-use of highly generic terms describing functionality that has a far-reaching scope. As a result, finding vendors that fit an individual corporate need is not as simple as Googling “TMS” and sending out an RFP.

Now, consider the following:

- ◆ Senior management has a very clear mandate from their shareholders. Invest in high return, measurable, manageable, low risk technologies and processes that drive improved EPS and grow shareholder equity.
- ◆ A Transportation management solution drives millions of dollars in benefit, is implemented in 6 to 9 months with minimal disruption to the organization and will show a positive impact on financial statements within the same year as the investment.
- ◆ Clearly, senior management is obligated to aggressively investigate this technology. A TMS initiative must be high priority for most organizations and will definitely be worth the effort.

The good news, selecting the right TMS technology and strategy does not need to be difficult. It just requires a different approach than has historically been adopted. The results will speak for themselves. Here’s what needs to happen:

- ◆ Senior management must take ownership of your transportation management strategy and appoint a change agent with the authority to break down barriers and dig into the processes to uncover areas of financial and operational opportunity. But the impetus can come from below; there are many stories of companies successfully implanting high ROI TMS projects championed by senior logistics or supply chain management, but which were triggered by the recommendations of middle managers.
- ◆ Understand where your current performance. Leverage third party experts (vendors, consultants, or analysts) to help benchmark processes against best practices and similar

distribution environments. Outside analysis is often much more objective and unencumbered by status quo than internal studies. While undoubtedly, every company's distribution model has its unique characteristics, getting advice, feedback and suggestions from those who have analyzed dozens of distribution networks and models will always add value.

- ◆ Locate and quantify the real incremental value, considering existing systems and efficiencies already in place. This value can be measured in terms of cost reduction (labor, transportation costs, elimination of fines and penalties, in-sourcing) and revenue opportunities (improved customer service, new distribution channels, new value added services). Achieving this value becomes the objective of the entire team including all process owners. This value model also becomes the framework for implementation prioritization and post implementation benchmarking. Executives are often surprised – and energized – when they see the size of the dollar opportunity.
- ◆ Once the objective is identified and quantified, select a list of qualified vendors that deliver proven solutions that fit the strategy and share with them the goals and opportunities identified. Rather than asking for a feature function demonstration, ask them how they would use their technologies to deliver these results.
- ◆ Select the vendor that best displays the capabilities to comprehend the objective and deliver the result.

It is no longer necessary (or even acceptable) to continue adding cost to the bottom line. If senior Managers take the time to evaluate the impact to their company's financial results, transportation management will quickly jump the top of the corporate priority list. By adopting an effective methodology for evaluating and acquiring the best solution from the wide variety of quality suppliers, it is sure to defend its position.

The result, you will have the solutions and organizational commitment to tame the last frontier resulting in operational efficiencies and financial benefits.

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