Where Are You on the Transportation Best-Practice Continuum?

by Michael Younkin, Industry Consultant, FedEx Services

Editor’s Note: This article provides a review of common transportation best practices and a framework for continuous improvement.

The supply chain has become a place for many new and creative ideas and the focus for business differentiation and efficiency. According to one recent study, 80% of CEOs said supply chain management was important or very important for the success of their company. But to win in the trenches, it takes a company that can execute key operational tactics at their best. A transportation framework has been developed to allow shippers to align their transportation operation with their supply chain strategy and overall business objectives. This framework allows shippers to take their improvement to the next level.

The new framework divides transportation management into six process areas made up of six activities:

1. **Carrier Management**
2. **Load Planning and Optimization**
3. **Preparing and Executing Shipments**
4. **Shipment Monitoring**
5. **Freight Payment and Audit**
6. **Performance Monitoring**

Core to this new transportation management framework is flexibility to align transportation tactics with your company’s business strategy. Therefore the model does not profess that there is one right answer that fits all situations. Instead the model helps shippers tie their transportation management process activities to their business strategy.

In August 2005 FedEx studied the financial results of 197 publicly held companies. The transportation managers of 100 of these companies were then surveyed on how they perform fifty-two different transportation activities found in the transportation management framework. Following is a brief explanation of the findings of the study and some examples of the tactics used by leading companies. A link in the sidebar will take you to a Transportation Maturity Assessment tool you can use to help you identify the key tactics you want to improve in your operation. Once you understand each process area, you can use the assessment tool to help you identify opportunities for improving your transportation activities.

**Process Area 1: Carrier Management**

Carrier management is the set of activities shippers employ to identify and procure the best modes, best carriers for each mode, and best rates. The leading companies here tend to manage all inbound and outbound freight with carrier partners that are selected through a formal, detailed process. Best practices include collaboration between shippers and carriers that leads to better overall performance for both parties. When evaluating carriers, you may want to evaluate in-house fleet as if it were an outside carrier.

**Process Area 2: Load Planning and Optimization**

Load planning and optimization is the creation of efficient transportation plans that allow shippers to reduce costs and improve service. Use of a transportation management system (TMS) is typical for leading companies. The optimization capabilities of a TMS selects the best option for a shipment based on preset criteria, including cost, transit time, and overall mode. Leading companies also use a longer planning horizon, allowing orders to be evaluated for combination with others, allowing for example a mode shift from parcel to less than truckload (LTL).

**Process Area 3: Shipping Execution**

Optimal plans must be supported by effective operations in the shipping office, on the dock, and in the yard. Getting the right shipment on the right carrier’s truck at the right time takes flawless planning. A Transportation Benchmark study showed that companies with a strategic transportation plan often had higher customer service level and lower transportation costs than those without such a plan. Leading companies use electronic data interface/interchange (EDI) and other communications to tender shipments, set and confirm pickup appointments, and submit shipping documentation to their carriers. This is one of the win-win areas as carriers will recognize the efficiency in making pickups and deliveries at a well-scheduled dock.

**Process Area 4: Shipment Monitoring**

Shipment visibility throughout an organization, not just in shipping, is paramount to a responsive customer-centric company. Leading companies are incorporating real-time updates from their carriers into their own systems, giving visibility throughout their organizations. This makes the shipping department more efficient as
they spend less time on requests for tracking and proof-of-delivery information. Leading carriers are also providing proactive notifications of a shipment's status. These updates can be routine as when a shipment delivers or a warning that a shipment's delivery is in jeopardy due to a delay—for example, it is stopped for customs inspection.

Process Area 5: Freight Pay and Audit

Transaction-heavy processes, such as audit and freight pay, are ideal for automation. Recent technology developments and large shipper's scale have begun to drive efficiencies in freight-payment processes. Leading companies manage rates for all ship points from a central location and re-rate the invoices when received to compare invoice amounts to contracts terms. Without automated systems, re-rating high volumes would not be practical. Smaller shippers that want the assurances of re-rates but don’t have the volume to warrant a system can look to third-party service providers.

Process Area 6: Performance Measurement and Management

The old adage “if you’re not measuring it, you can’t manage it” certainly holds true for transportation. You need to know how good you are before you can decide how good you can be. Performance measurement requires combining internal data from your company with data from your carrier to create a scorecard. The scorecard usually includes internal process measures such as percent of requested ship dates attained, percent of shipments moving on planned mode (or inversely how often expedited transportation was required), and transportation cost as a percent of sales. Measures of the carrier performance may include on-time performance, transit time by lane, and claims as a percent of shipments, or as a percent of transportation cost.

Another leading practice as it relates to transportation performance revolves around having review meetings with your carriers. These meetings should review the scorecard trends. It also provides an opportunity for the carrier to bring up issues. This also is an excellent time for you to discuss upcoming needs, perhaps seasonal changes in shipping, or a pending increase or decrease in shipping patterns, including new vendors or customers that may be coming on line.

Assessing Your Transportation Maturity

The link in the sidebar takes you to a spreadsheet containing fifty-two common transportation activities. The assessment provides you a series of methods of performing the activity. You go through and mark the methods that most closely match how you are performing the activity today. Then you evaluate each activity in terms of the level at which you want to be performing. The assessment then shows you the areas with the most opportunity for improvement.

But before jumping to the conclusion that you want to start down the improvement process in all of these areas, you need to stop and examine these practices relative to your company’s business strategy. Select the activities that best support your overall strategy first.

Michael Younkin is a twenty-year veteran of the transportation industry. Among his current responsibilities at FedEx, Mike oversees the company’s industry focus on the Printing and Publishing industry segments. He has been published in industry publications and spoken at industry events and association meetings. Mike earned his Professional Certified Marketer status in May 2006. Mike can be reached at mike.younkin@fedex.com.

Transportation Maturity Assessment Tool


Instructions

1 Click on the TM Process Assessment tab at the bottom of this screen.
2 Page up to the top of the sheet and hit the “Home” key.
3 Review the practices listed along the continuum (Row 4) for the Activity shown for the activity in the left.
4 Enter your assessment of your current capability for this activity on the scale of one to five, based on the characteristics listed for the activity.
5 Enter your desired level of capability in the column labeled “Target.”
6 Proceed with the evaluation for each row of the tool until complete.
7 Click on the “Gap Assessment” tab.
8 Review the summary scores for your Current capability versus the desired capability.
9 The highest-priority improvement areas will be highlighted in RED. Medium-priority activities will be highlighted in YELLOW, and well-performing areas will be highlighted in GREEN.