Exec Guide: Why A 'Win-Win' Partnership Approach Is The Most Effective Long-Term Transportation Strategy.

Written by Dean Corbolotti, VP Managed Services with 25+ years logistics.

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Background

Any professional who has been in Logistics and Supply Chain can attest to the fact that there is only one true constant… volatility. And when disruption occurs, there are often periods of short sightedness when making important decisions.

This certainly holds true for the transportation team and decisions related to truckload shipping. Why? Because truckload cost behaves in a cyclical fashion and can change with little notice. Unfortunately, only one party wins when the freight market is in an extreme position. This is when knee jerk decisions are made.

Traditional Processes Reduce Truckload Price But Come With Risk.

Whether in a manufacturing or retail environment, executives are always on the hunt to reduce operational costs. Cost pressure is constant for those who manage shipping and transportation. Most think the easiest way to reduce truckload cost is to take advantage of a soft freight market. Historically, shippers have relied on two traditional processes, RFPs and spot quoting, to level-set provider pricing and reduce truckload costs. Although potential savings is ilikely, pitfalls must be considered with both procedures.

RISK

RFPs & Spot Market

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Request for Proposal [RFPs] Considerations

1. Incumbent providers, who have provided good service at reasonable rates in the past, might be alienated. RFPs might cause them to lose significant business to new carriers. There is no guarantee they will return and if they do there's a high chance it will be at a higher price point.

2. Additional work is required by the shipper to manage the RFP process, and then onboard new providers. The more carriers, the more there is to manage.

3. Service levels, such as on-time delivery, may suffer as new providers adapt and learn unique business requirements. There is no guarantee new carriers will perform better or even at the same level of the carriers they are replacing.

Spot Market Considerations

1. In a soft market, brokers are aggressive with new opportunities often taking losses to secure the lowest bid. This puts extreme pressure on smaller carriers.

2. As soon as the market turns, 3PLs add additional markup to make up for losses during soft periods. By driving costs too low, small carriers can not afford to stay afloat which fuels attrition and compounds the driver shortage problem.

FreightWaves Research reported that 1/3 of owner operators would leave the industry if current conditions don't improve by 2H 2023. While the sample size wasn't huge, the directional implications are troubling considering the number of owner operators who haul freight is estimated at ~240K according to OOIDA.

Why The Lowest Truckload Rate Is Not Always the Best.

Securing the lowest possible rate should be considered a short term strategy because low prices only benefit the shipper in the short term. Shippers need to be asking themselves several questions when potentially adding additional providers to their carrier network based solely on a lower rate structure.

1. Does the provider have a proven track record in the markets they bid on?

2. Can the provider seamlessly integrate with the TMS or are they just another typical email or EDI transaction?

3. Is the provider capable of GPS tracking on every load they haul and able to provide a position location at any point in time?

4. Does the provider have a strict carrier screening process which protects against safety and insurance issues?

5. Does the provider offer dynamic pricing and update truckload rates based on market fluctuation?

6. Does the provider offer 100% data transparency with no hidden margins?

Cost savings alone is not a big enough reward if all or most of the answers are ‘no’. Total transportation costs go far beyond what the individual rate per lane is. Lack of integration means manual data transfers and more work for internal logisticians. The inability to track drivers via GPS equals hours spent responding to inaccurate emails and phone calls. Carriers with suspect safety and insurance issues can set shippers up for legal ramifications even when there is an agreement in place [oftentimes folks go after the party with the deepest pockets]. The inability to dynamically price lanes within the TMS will ultimately cost internal time and money dealing with market shifts as they happen.

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Are Your Transportation Suppliers True Partners?

FACT:
Distrust between shippers and 3PLs happens when shippers chase the lowest possible rate and 3PLs chase the highest possible rate. The true cost is somewhere in the middle!

To feed into the Win-Win approach, both parties need to treat each other like customers.

Whether they are an asset or non-asset provider, they too play a large role in short-sighted decision making. Here are a few tell-tale signs to determine if your provider is seeking a long term partnership.

Asset provider:
1. Does the provider educate on cost pressures and are they 100% transparent in what factors make up truckload cost?

2. Does the provider offer consistent capacity year round or are they pulling their trucks and chasing higher rates when the opportunity presents itself?

Non-asset providers:
1. Does the provider play the market to extremes and ask for $200-500 more per load because they know the market bears it, or do they avoid excessive rate increases?

2. Does the provider have technology that collects freight data that helps analyze the market?

3. Is the provider transparent when it comes to what they are paying the trucks they procure and passing through true market cost?

If the answer is ‘no’ to these questions then the provider is not a true partner. They are not interested in fostering a ‘win-win’ relationship. Instead, they are focused on their individual short term success, opposed to both parties being successful long term.

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Fostering Long Term 'Win-Win' Relationships Is Key.

If your primary job within the supply chain is to procure transportation, or to provide it as a vendor, you have a responsibility to educate decision makers on why chasing the lowest or highest rate levels is not a solid long term strategy. Finance groups tend to look at things within the confines of a spreadsheet and need education on the long term effects of a "lowest price possible" transportation strategy. Shippers and carriers who adopt a more 'win-win' mentality, and want both parties to succeed, will gain a competitive edge and win in the long run.

Celebrated author, educator, and business consultant Kate Vitasek said it best:

> ***"In today's rapidly evolving world, business relationships based on an outdated 'win-lose' mentality won't withstand a market that demands constant change and adaptation. Only by focusing on 'win-win' relationships can companies drive innovation and increase their competitive edge."***

If you are interested in learning more about how advanced freight procurement analytics and AI-powered software builds long term, 'win-win' relationships through transparency, innovation, and seamless integration visit **www.sleek-technologies.com.**

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