A Blue-Sky Reality: Shippers, Carriers and Live-Connection Collaboration

Technology for Dynamic LTL Freight Management

Written By:
Lance Healy, *President*
Banyan Technology, Inc.

This paper will discuss how "live connections" and cloud-based technology can help manage the data and processes on which shippers and their less-than-truckload (LTL) carriers rely – and, as a result, help them to build more collaborative, productive and mutually beneficial relationships.

Introduction

To help understand today's shipper-carrier relationship, it is important to look at their shared history: The Motor Carrier Act of 1935 brought tight control to the motor-carrier industry, including oversight by the Interstate Commerce Commission, of collectively created rates. More than four decades later, the industry saw significant deregulation with the enactment of the Motor Carrier Act of 1980. This legislation opened doors to easier entry of new carriers into the market, and allowed easier expansion for existing carriers.[1]

In the aftermath of the Motor Carrier Act of 1980, the number of LTL carriers in the United States grew dramatically as federal oversight of the motor freight industry waned. While this deregulation spurred new processes and advantages for shippers and LTL carriers, some aspects of the shipper-carrier dynamic continue to this day to echo the past. Among them: rate negotiations based on averaged tariffs and assumptions about the future, all layered into year-long contracts.

Admittedly, rates may still be negotiated using averages and assumptions because, in the classic "if it isn't broken, don't fix it" scenario, it's always been done that way. Though the process may be riddled with shortfalls, freight still moves. The process may also still be stuck in time because any wishful notion that shippers and carriers may have had about strengthening the necessarily collaborative nature of their relationship via constantly open and clear communication channels was simply blue-sky thinking. It didn't seem possible.

Clearing the Skies

If technology is now so advanced that the computing power of the average smartphone exceeds the computing power of the Apollo space missions, why can't it help improve the way shippers and their LTL carriers negotiate rates and manage freight movement? Two powerful words: it can. In fact, it already is. Through a cloud-based platform that creates live connections, shippers and their LTL carriers are:

- Replacing routing-guide assumptions with instant and constant visibility of all preferred carriers' rates and transit times.
- Eliminating time-consuming rate-table maintenance while boosting operational efficiencies.
- Quickly and easily gaining the freight intelligence needed to improve carriers' competitive advantages and shippers' freight-management practices continuously throughout the year.
- Eradicating the need for carriers to "buffer" their contracts by mitigating the risks of pricing based on averaged tariffs. Live-connection technology allows shippers to support multiple rate bases simultaneously.

[1] Trucking Deregulation in the United States – Submission by the United States to the Ibero-American Competition Forum, September, 2007 (available at https://www.ftc.gov/sites/default/files/attachments/us-submissions-oecd-and-other-international-competition-fora/ibero-trucking.pdf)

Further, the live-connection technology, which enables right-now rates reflecting shippers' needs and carriers' changing networks, is producing savings averaging up to 16-20 percent on outbound and even greater results on inbound LTL freight. With live connections, the skies are looking very blue.

Assumptions and Averages: Deficiencies that Overshadow the Process

For decades, freight rates have been negotiated through an annual bid-package procedure. It often takes months to complete, and is a labor-and time-intensive process for both shippers and carriers.

Bid packages are based on historical data – what was shipped in the previous year – and then adjusted with projections about the coming year. In most cases, shippers require their carriers to participate in the negotiation process using a third-party-produced tariff that does not reflect a carrier's specific operation, but instead, reflects averages. Why do shippers require use of these tariffs? Because averaged tariffs provide shippers a common benchmark from which to negotiate with each of their carriers, theoretically enabling an apples-to-apples comparison. However, there are significant consequences to this approach.

The Problem of Fog

Carriers who are compelled by shippers to negotiate rates based on averaged tariffs are exposed to risk on two fronts. First, because lane prices are not reflective of a carrier's own operations, the profitability of each lane can vary greatly since the carrier is required to bid with often a single discount off the averaged base rates. Second, as a result, carriers lose direct control of their own profit margins and have no visibility regarding which lanes they will be awarded. To mitigate these risks, carriers must add margins on their bids, but, because there is a single discount applied universally to all lanes, margins are applied equally to both good and bad lanes. The net result is an agreement that not only diminishes the carrier's ability to be competitive, but also, by obscuring the carrier's most cost-effective lanes, does an equal disservice to shippers.

The entire exercise is so arduous and the maintenance of ongoing changes to rate tables is so complex that the bid package and rate-negotiation process is typically only completed once annually; thereafter, it is set in place for the year. Yet, throughout that year, a shipper's business is constantly shifting suppliers, customers, products and packaging, and each shift could have an impact on carrier pricing. In addition, a shipper's changing operations are overlaid with similar shifts on the carrier's side: a fluctuating mix of terminal locations, new anchor clients and lost customers. The dynamic environment in which shippers and their carriers operate is not well served by locked-down, assumptive pricing. In fact, locked-down pricing hinders both shippers' and carriers' ability to maximize profits and boost operational efficiency.

Still More Assumption-Based Haziness

The rate base of an LTL carrier is simply that, a base from which to begin calculating a price. But there are two common misconceptions on the part of shippers that make the rate-development issue less clear than it should be: one is that the higher the carrier discount, the cheaper the rate; the other is that the older the tariff used for rate negotiations, the more competitive the resulting rate.

Shippers using Carrier A, which offers a 70 percent discount off the negotiated base rates, could actually be spending substantially more than they would have with Carrier B, which offers a 68 percent discount. That's because discount percentages in and of themselves are not determining factors; instead, it comes down to percentages off base rates, plus charges specified in the rules tariff, a lengthy document that is "incorporated by reference" into the rate sheet or rate table. Together, these two conditions determine the amount charged by the carrier.

As for using older averaged tariffs as way to negotiate cheaper rates – that is, basing rate negotiations on a third-party-produced tariff from 1992 versus a carrier-specific tariff from 2015 – shippers will discover that it is a false premise. The truth is that discounts and rules tariffs adjust for nearly all variances, regardless of when they originated. So, the older the tariff, the more risk to the carrier and the more the carrier will have add to base rates in order to cover operating margins.

In each case, the haze of these assumptions lift immediately when shippers gain the ability to capture all of their net pricing from each carrier before making the carrier selection. Live-connection technology makes that possible.

Collaboration Clears the Way for Blue Skies

Direct connectivity with each of a shipper's carriers eliminates the need for a shipper to create and maintain internal static rate tables because shipper-specific net costs are available directly from each carrier's system, at the instant client pricing is published. Further, live, direct connections, which are transparent and non-intrusive to a carrier's automated system, allow each carrier to participate in the RFP process using the most competitive tariff and typically their own current tariff for their operations and changing networks. When carriers can use the most competitive tariff, they are able to maintain control of their own profitability across all lanes. The advantage: carriers have no need to add substantial margins to rates negotiated from averaged tariffs because they have no need to offset unprofitable lanes. The resulting immediate cost savings for carriers translates to savings for shippers. It's a mutually beneficial outcome of information exchange that strengthens their communications.

Live connections form the foundation of a new, much more collaborative relationship between shippers and their carriers: carriers automatically participate on every shipment and have the ability to make adjustments to their own tariff to optimize competitiveness on a lane-specific level. For shippers, not only is time-intensive table maintenance eliminated, but also, shippers are able to easily harvest freight intelligence to share with carriers, allowing the latter to routinely see which lanes were lost and by what amount. This actionable data helps carriers

to make adjustments to shipper pricing, and, as carrier networks change, updates are reflected instantly through shippers' supply and demand chains. Because savings are mined and refined continuously throughout the year, the annual, stress-filled, rate-negotiation process is all but eliminated, yet shippers and carriers get better efficiencies and savings. In fact, for years, some early adaptive live-connection shippers have not done a bid package in more than 9 years.

Many of the same benefits stemming from live-connection-enhanced collaboration on outbound freight processes apply to inbound freight, as well. Interacting with vendors through a very low-cost, simple-to-use, cloud-based tool set has reduced direct freight spends by an average of 16-20 percent. In addition, these tools provide an ability for purchasing professionals to gain real-time visibility into their orders prior to shipments leaving their vendors' docks. Further, because vendors are able to generate shipping documents directly from the collaborative web interface, they are able to populate pallet labels with order-specific, put-away information already contained in the bar code. As a result, the receiving client can bring up the order as soon as it hits the dock.

In Summary

The accountability and the performance metrics made possible by collecting and processing data on a single, neutral platform deliver tremendous visibility and control to logistics operations professionals. Shippers using the collaborative, dynamic freight management modules of the cloud-based solution gain unprecedented transparency and intelligence to strengthen relationships with their preferred carriers, an advantage that not only improves their own efficiencies, but also one that shifts the LTL freight-movement industry ahead, into a blue-sky future that's here, today.

BANYAN TECHNOLOGY

About Banyan Technology, Inc.

Banyan Technology pioneered live-connection software in 2001, and continues to lead in the LTL freight industry's shift toward cloud-based management of dynamic data today. Headquartered in suburban Cleveland, Banyan has more than 23,000 customer sites and 1,100 carrier connections throughout North America. For details, including a demonstration of the live-connection application, visit **www.banyantechnology.com**, or contact Banyan Technology at **800-835-1274**.