HOW TO THRIVE DURING A TIGHT CAPACITY MARKET

12 SUPPLY CHAIN STRATEGIES TO IMPLEMENT FOR MORE TRUCKLOAD CAPACITY OPTIONS

WHITE PAPER

C.H. ROBINSON
ACCELERATE YOUR ADVANTAGE®

IN BRIEF

A tight truckload market often challenges shippers looking to secure capacity. Whether planning ahead or reacting during a tough situation, there are strategic measures to help align business goals for both shippers and carriers. These actions can promote the best results from any market—even a tight one.

CONTENTS

Market tension occurs through a variety of influences, including economic growth, investment in new trucks, and regulations that lower fleet efficiency. As these and other factors play on the truckload market, available capacity shifts accordingly—and sometimes a capacity shortage results.

Just as the housing market shifts between buyers' and sellers' markets, the truckload market undergoes similar shifts. Tight capacity means it is a carrier's market because greater demand from shippers leads to more business opportunities for carriers to choose from as they work to increase the yield of their fleet and bring greater income assurance to their drivers.

This means some shippers may have trouble obtaining the equipment they need. In fact, a 2017 study by *American Shipper* indicated that 37% of shippers interviewed stated tight supply on specific lanes was a key dynamic affecting their freight procurement strategies.[1] Shippers in this situation are likely to pay higher transportation rates because of it.

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Those who experience the most trouble have likely:

- Historically sought rates below market
- Provided short lead times and unpredictable tenders
- Maintained truckload pricing that is more than 12 months old
- Developed a reputation for lengthy loading times

This white paper provides insights that will help build a truckload strategy that's ready for a tight capacity market. By applying these strategies at any time, shippers can obtain better access to capacity, regardless of economic or market conditions.

ACT NOW: IMMEDIATE STRATEGIES FOR DEALING WITH TIGHT CAPACITY

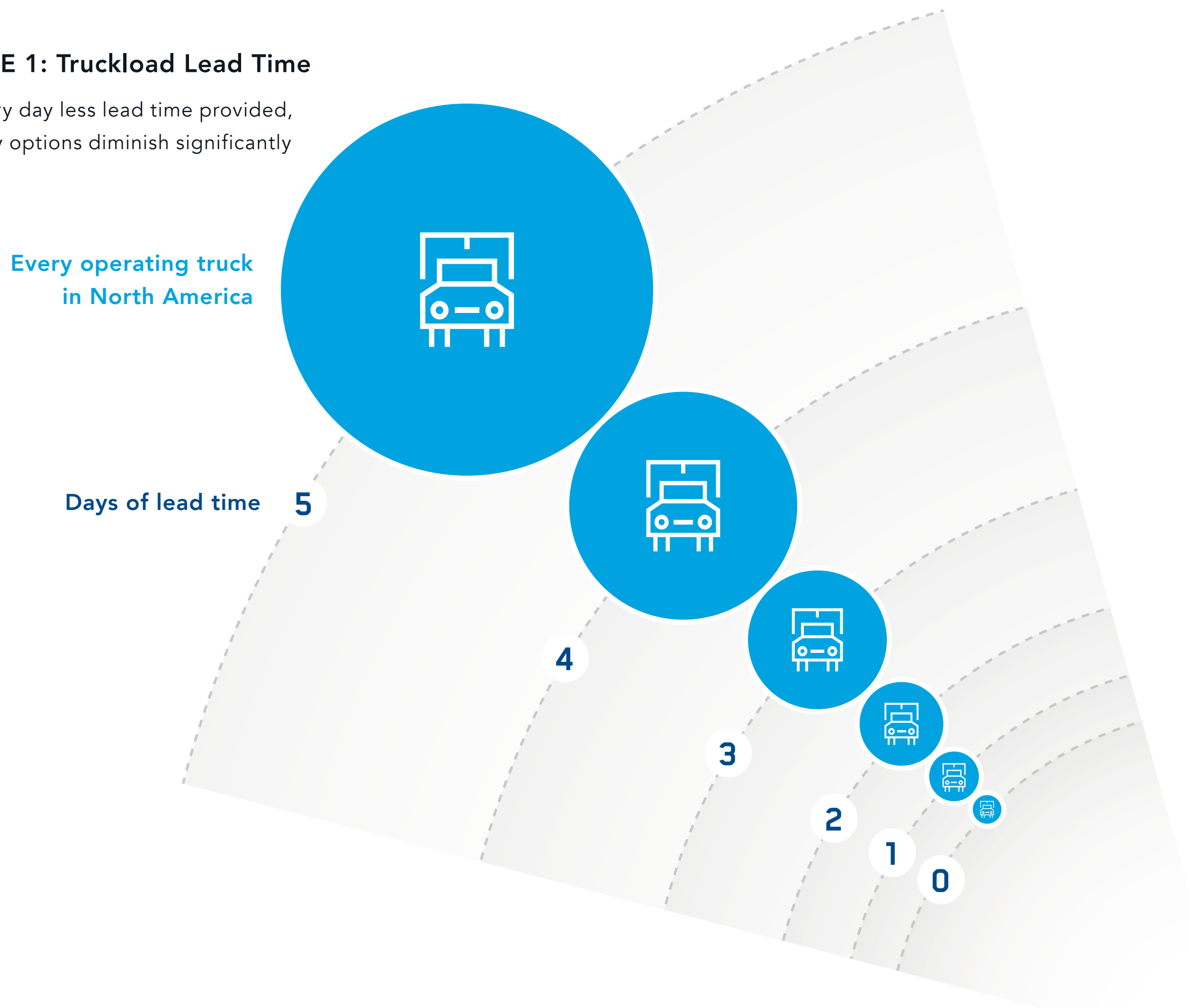
Provide ample lead time

When a preferred carrier rejects a load, forcing the shipper to delve into their routing guide, transportation spend tends to rise and budget overrun occurs. Typically, as a shipper delves deeper into their routing guide, they experience a higher rate per mile. Overall, with each step down the routing guide, shippers pay about $26.00 more per shipment in rates.

Research proves that longer lead times can improve carrier acceptance rates. And short lead times paired with unpredictable demand can be even worse on tender acceptance levels. A small shift to increase lead time from less than two days to over three days has shown an improvement on carrier acceptance rates.[2]

FIGURE 1: Truckload Lead Time

For every day less lead time provided, capacity options diminish significantly



Be flexible on pickup dates and hours

Carriers need to add efficiency wherever possible to improve their yield and maintain a healthy operating ratio. Shippers can help them achieve this goal by providing flexible pickup options when possible.

Positive driver experiences are one way to promote loyalty to contracted freight. Instead of providing a specific pickup time (e.g., 10:00 a.m.), a shipper may try to provide a two to three hour window for pickups (e.g., 9:00 a.m.-11:00 a.m.). Especially as retailer delivery windows are tightening, a pickup window allows carriers to better meet their own network needs while still delivering for the shipper.

Understand current market conditions

There are no fail-proof ways to absolutely identify when a capacity shortage will occur. But shippers who watch certain economic and market indicators can better understand cycles and anticipate potential changes to transportation rates.

Shippers who are aware of changes in the market should communicate openly with their logistics leaders and providers about annual bidding cycles and the desire to maintain an ongoing relationship—a winning strategy in the long run.

Consider all viable options

A shipper that is unprepared for a tight market can still influence how they experience the tension. There may be ways to increase capacity options through creative means. For example, a modal shift from flatbed to dry van.

A company that typically ships their sandbags via flatbed has trouble finding capacity when flatbed equipment is in high demand. Instead of missing deliveries or paying exorbitant flatbed rates, they switch to dry van trailers. The shift means fewer sandbags per trailer and more shipments overall, but the cost difference from flatbed to truckload ultimately results in a minimal increase to their per pound shipping costs. This or another creative solution may be the right choices for the next delivery—even if it's only a short-term solution.

Review these and other freight indexes for a broad market picture:

- The Transportation Services Index
- Active Truck Utilization Index
- DAT Trendlines
- Cass Freight Index and the Cass Truckload Linehaul Index
- Producer Price Indexes

GET READY: STEPS TO TAKE WITHIN THE NEXT 90 DAYS

Benchmark to set realistic expectations

Understanding how last year's transportation rates compare with this year's is only part of the equation. To know whether current rates are good or bad, shippers need to know how their rates compare (high or low) to the overall market too.

Some shippers maximize their ability to learn more about rates by utilizing global transportation management systems (TMS). This level of connectivity allows shippers to leverage not only historical data, but also benchmarking data and best practices into their overall business intelligence (BI) analysis.

Maintain a stable set of providers

As part of focusing on a long-range mindset, shippers should measure how much freight they give to nonincumbents, and recognize that as more freight is given to these providers, more risk is added to the solution. Realign with service providers where it makes sense—not constant provider turnover—to drive real access to capacity and savings.

Alignment over a sustained period is beneficial for both shipper and provider. When both parties collaborate on a full-year plan using forecasts and modeling tools, there is a much better chance that capacity and cost will be aligned.

Don't try to time the market

Shippers who try to lock in rates when they believe rates are absolutely at their lowest point often experience other challenges. For instance, research shows that if pricing is below market, on time delivery suffers.[3]

Instead, seek competitive rates at a given point in time. Choose a time of year that allows for the adequate dedication of time and resources to conduct the exercise. Peak shipping season may not be the ideal; instead, shippers should choose a time that is good for their business cycle.

Better understand your position in the market by answering these questions

1. How do we compare to last year?
2. How do we compare to this year's plan?
3. How do we compare to the market?

Use the answers to help you discern and improve your relative position in the market.

Share the truth about your business

Shippers who accurately represent their freight during procurement events will likely yield more accurate pricing and a route guide that will perform to plan. Conversely, if shippers fail to disclose complicated aspects of their freight, they are more likely to experience route guide substitution or requests for amended pricing.

THINK AHEAD: LONG-TERM STRATEGIES FOR SUCCESS

Implement a TMS to uncover opportunities

A TMS is neutral, delivering performance data and analytics without bias. Incorporating this kind of intelligence into annual and quarterly reviews with service providers leads to two important outcomes. First, it allows shippers to work with hard data, not anecdotal information. Second, it gives service providers the insights they need to provide better service.

A strategic buyer of transportation can use trend analysis information collected from a TMS during the truckload benchmarking and baseline process to see if their overall costs are rising, even between bids. This information can be used to determine where to pay special attention during the next scheduled procurement exercise, as well as areas to focus on between exercises.

Use advanced bidding tools

Many tools make it possible to quickly and simultaneously share a strategic procurement exercise to multiple service providers. Web-based tools and cloud computing solutions from Managed TMS® or software as a service (SaaS) providers are quickly replacing more manual tools.

By collecting freight rates and modeling scenarios, the right tools enable shippers to obtain the optimum transportation plan, and to understand the trade-offs between using different service providers and different cost structures.

3 ways to make freight more attractive:

1. Provide 48-72 hours' lead time
2. Load/unload quickly for shorter dwell times
3. Conduct regular procurement events

According to an ARC survey, shippers achieved 12% freight savings on average with the use of a TMS[4]

Conduct annual procurement exercises

Every year, at the same time of year, review rates and service provider options. Research shows this type of consistency allows for better alignment with carrier networks for long-term, sustained pricing levels at or below the market before prices get stale.

Shippers who develop a robust process for contracting freight also build credibility in the market as reliable, predictable customers. With a year-long, rationalized supplier base plan established, providers are far more likely to adapt to all types of market changes, continue to accept shipments, and provide quality service, without feeling locked into a bad situation.

Avoid long-term exposure to the spot market

As shippers become more strategic in their purchasing decisions, the spot market is becoming a smaller piece of the overall market. In fact, market analysts estimate the spot market only makes up between 15-25% of the overall truckload market today.

Because the spot market is so much smaller than the amount of capacity available for committed freight, any amount of tonnage shift or minor disruption tends to cause a spike in spot prices. While situationally, the spot market may offer savings in the short term, it will inherently have higher volatility to contend with.

TIGHT CAPACITY DOESN'T HAVE TO HOLD YOUR SUPPLY CHAIN BACK

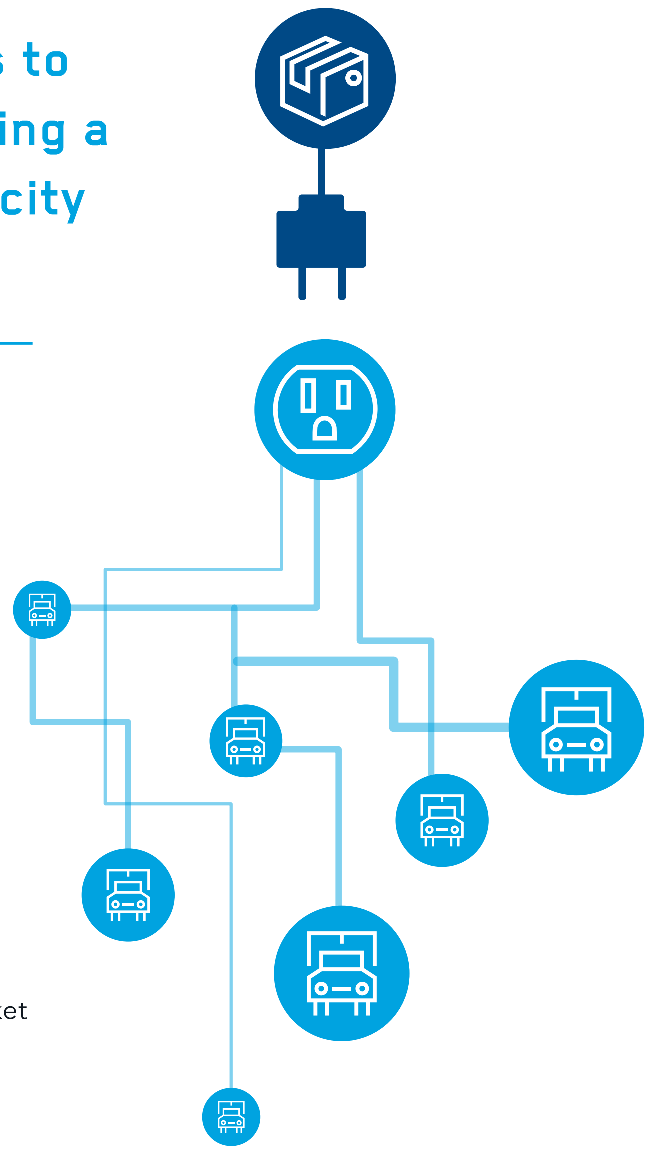
It's never too late to start taking a more strategic approach to truckload procurement—and there are strategies for success on any timeline. An ongoing effort to seek alignment between shipper and service provider networks is a strategy that can show benefits to both parties. Seeking alignment between business goals and outcomes of both shippers and carriers can result in better rates, more capacity options, and exceptional service levels over time.

Outsource shipping logistics

Procurement consultants can help lower the burden of procurement exercises and ensure that all elements are in place.

5 STRATEGIES TO BRING IN HELP

12 strategies to thrive during a tight capacity market



1. Provide ample lead time
2. Be flexible on pickup dates and hours
3. Understand current market conditions
4. Consider all viable options
5. Benchmark to set realistic expectations
6. Maintain a stable set of service providers
7. Don't try to time the market
8. Share the truth about your business
9. Implement a TMS to uncover opportunities
10. Use advanced bidding tools
11. Conduct annual procurement exercises
12. Avoid long-term exposure to the spot market

NOTES

1. *American Shipper*. "The Art and Science of Buying Freight: Transportation Procurement Benchmark Study.", p.6.
2. C.H. Robinson, TMC, MIT Center for Transportation & Logistics. "Increase Lead Time, Decrease Costs."
3. C.H. Robinson, TMC, MIT Center for Transportation & Logistics. "Do Higher Truckload Rates Bring Better Carrier Performance?"
4. ARC Advisory Group. "The ROI of Managed Transportation Just Keeps Getting Better." June 30, 2016.
5. Iowa State University, C.H. Robinson, TMC. "Stale Rates Research: Benefits of Frequent Transportation Bids."

ABOUT US

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