



Navigating the Storm: Seasonal Impact to Transportation Sourcing

Navigating the Storm: Seasonal Impact to Transportation Sourcing ...

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Over the past year, we have heard that transportation is going through a period of a "Perfect Storm" - when demands on the transportation industry have created an environment where the "Carrier is King." For many shippers, this has translated to increased rates, problems covering loads, lower service levels, and a feeling of lost control as they wait for the storm to pass. As fear of the uncertain has taken over, many have elected to wait and not pursue transportation sourcing activities as it may result in service upheaval and increased costs.

However, for companies that understand the transportation market, leverage their own freight profile, and incorporate a seasonal understanding of their sourcing strategy, there continues to be opportunities for a successful sourcing engagement - even in these stormy times.

First, although peak seasons for each transportation mode represent the market in its entirety, it does not indicate that every carrier is equally as busy or as fruitful. In fact, during 2004, there were nearly 1,200 bankruptcies in the truckload industry, and numerous changes in the LTL, small package, and international logistics markets through significant merger and acquisition activities. This has continued and may have accelerated in 2005. One can imagine the impact these fundamental changes have to the markets. Additionally, US corporations change their supply chain network by approximately 20% per annum. (This is measured on a lane by lane basis.) These changes interact directly with the carriers and continually impact each carrier's network by a representative percentage change.

How does this benefit you? By understanding these fundamental complexities to the carriers market, companies can read through the noise about the unilateral rate increases and understand that each carrier is different, and each shipper is unique - by marrying these attributes to a broad carrier base, there will always be a chance to capture savings by sourcing transportation.

Second, not all freight is the same - nor are all peak seasons. Many companies have counter-cyclical peak season cycles that are extremely beneficial to carriers. If you are not subject to the standard peak seasons (Home and Garden type retailers are an example of counter cyclical

companies), then this freight is valued by the carriers and they will be willing to aggressively compete for the business. Carriers also react differently to shippers that don't have heavy quarterly, monthly, or weekly pushes to their shipment volumess. If there is ability to level-set these variations, carriers will react accordingly.

Additionally, there are significant variations by shippers in carrier communications, planning and forecasting, and delivery requirements (these are only examples, and would require another paper to explain all the differences) that will be either beneficial - or negatively impact your sourcing efforts. If your company's freight is not carrier friendly, work on this prior to undergoing any sourcing efforts in this market.

How does this benefit you? If you have counter-cyclical freight (your do not have the same heavy shipping peaks and valleys of other shippers), you will get preferential pricing and service from the carriers. This is due in large part to the carriers close attention to their operating ratios to determine which clients - and sometimes which lanes - are more profitable than others. When sourcing transportation, take time to explain how your freight is different and carrier friendly - but don't state something that is not true... remember, the carriers may know your freight better than you do.

Third, our research indicates that there is an optimal "season" to undertake transportation sourcing activities. This enables a client's transportation sourcing activity to begin and be completed without engaging the carriers during peak season shipping. The worst noise in the industry is heard during the peak seasons - and proper scheduling of activities to bypass carrier discussions during these times of tight capacity will allow your organization to leverage the off-season timing to increase savings. The other benefit is that this understanding allows companies to establish an almost year-round strategy for their sourcing efforts, which alleviates problems in execution and contracting activities that may occur when sourcing multiple categories simultaneously.

- Continued -

CornerStone Select, Inc.

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In determining the optimal time to begin sourcing, we have leveraged our experience to forecast the effective time needed to complete a sourcing activity and not be impacted by the carriers' peak season. The concept is to cordon off the peak season and

NOT engage carriers during this period as this would have negative affects on their pricing decisions. From this understanding, you add buffers around the peak season then build backwards from implementation, contracting, through to the actual sourcing activity. Below are the key

Transportation Sourcing Season:		
Mode	Carrier Peak Season ⁽¹⁾	Optimal Time to Start Transportation Sourcing Efforts ⁽²⁾
Airfreight	Q4: Sep - Mid Dec	Mid Jan - Mid Feb
Ocean Freight	Summer: Jul -Oct	Dec - Mid Jan
Truckload	Fall: Sep - Mid Dec (Major)	January—March
	Spring: May - Jun (Minor)	
LTL	Fall: Sep - Mid Dec	Mid Dec - Mid Mar
Small Package	Q4: Nov - Dec	Mid Jan - Mid Mar
Rail	Fall: Aug - Nov	Aug - Oct (May be up to one year before completed)

Notes: (1) Peak Season shown for generally accepted industry peak periods
(2) Sourcing Season indicates optimal time to *BEGIN* Sourcing activities by mode

*** Seasonal Transportation Sourcing - Key Assumptions ***											
Mode	Peak son (1)	Sea-	Peak Season Buffers (weeks) ⁽²⁾		Sourcing Time (weeks) ⁽³⁾			Contracting Time (weeks) ⁽⁴⁾⁽⁷⁾			Implementa- tion ⁽⁵⁾⁽⁷⁾
			Pre-Peak "Build"	Post-Peak "Hang Over"	Data	Source	Negotiate	< 30	30 - 60	60 - 90	
Airfreight	Sep - Mid Dec		4	4	4	6	4		45		45 - 60 Days
Ocean Freight	Jul -Oct		4	4	4	6	4		45		45 - 60 Days
Truckload (6)	May - Jun		3	4	2-4	6	4	30			15 - 45 Days
Truckload	Sep - Mid Dec		8	3	2-4	6	4	30			15 - 45 Days
LTL	Sep - Mid Dec		4	3	3	5	3	30			15 - 30 Days
Small Package	Nov - Dec		4	2	6	8	4		60		45 - 60 Days
Rail (8)	Aug - Nov		6	6	4	10	unkn			90	unkn

Notes:
(1) Peak Season shown for generally accepted industry peak shipping periods for carriers
(2) Peak Season Buffers include time period prior to, and just following industry shipping peaks when timing is not favorable to sourcing activities. "Pre-Season Build" covers added time so that completed sourcing activities are not negotiated during heavy shipping periods, "Post-Peak 'Hang Over'" provides time to allow corporate and individual salesperson to "escape from" the busy season and allow more aggressive pricing strategies to be employed
(3) Sourcing Time estimated for average client, > \$20M in spend. Includes data collection, lane development; RFI/RFP process, optimization/analysis, negotiations (2 rnds)
(4) Contracting Time needed can vary according to corporate Counsel. Times shown are estimated for "realistic" clients
(5) Implementation Time shown for clients with turnover of carrier base; heavy re-award of business to incumbents will expedite implementation activities
(6) Truckload Peak Season, and Mini Peak shown, are combined when determining TL Sourcing Season
(7) Model assumes greater of Contract or Implementation time needed, plus 1/3 of other as both should be performed concurrently
(8) Estimates not provided for negotiations and implementation needed for rail activities as these can vary by months in some instances

CornerStone Select, Inc. specializes in helping clients control costs and optimize their overall transportation and supply chain operations. Our services have helped small, medium and large companies gain a strategic advantage through effective transportation management, reduced transportation procurement costs, outsourcing select operations and applying leading technologies on a regional or global basis.

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