THE JOURNAL OF COMMERCE

The Right Modes Right Now

Niko Michas | Oct 25, 2010 4:00AM GMT
The Journal of Commerce Magazine - Commentary

The current economic upturn may be giving some shippers good reason to let loose a long-awaited sigh of relief, but it is also presenting them with a variety of new head-scratchers. More than one of these new conundrums have to do with mode conversion.

Determining the right mode is never a simple task, but with orders coming in more rapidly and in greater numbers, many shippers are feeling more pressure than ever to find the least costly and most efficient mode of transportation, and to do it quickly. An increase in orders means larger and heavier shipments; larger and heavier shipments mean higher shipping costs. Even shippers who are fortunate enough to be able to hire new staff to handle increases aren't off the hook when it comes to reconsidering their modes of transport in a more focused way. They, perhaps even more than others, have to seriously reconsider their modes of transport in an effort to compensate for new expenses.

Historically, shippers have relied heavily on their carriers to help them determine their best mode selection options. There are two major problems with this: 1. carriers are typically going to choose the mode that is most beneficial to them, which is apt to be the most costly mode for the shipper, and 2. carriers don't know a company's supply chain as well as the logistics and supply chain managers who actually run it, and are therefore unlikely to have the ability, much less the desire, to suggest shippers do things like manifest certain shipments with extra weight in order to qualify them to ship via a lower-cost mode.

A better way to determine the best mode for each and every shipment in your supply chain is to implement an automated routing tool that will check both standard rates and your contracted rates prior to booking each load. When a shipment's weight, size, destination, and delivery date are entered into the system, the system will select the best mode and carrier, generate the cost, and book the load instantly. Your primary carrier should be able to provide you with such a system, though they will probably be reluctant to do so. Alternatively, you can purchase an automated tool through an established third party supply chain technology provider.

Another thing an automated routing tool should be able to do is determine the least costly weight break for every zip code or destination around the world. When you're dealing with large number of shipments day in and day out, it is too time-consuming to look up the least expensive weight break for every single destination manually. An automated system that will tell you that your 300 pounds worth of boxes that would normally be sent parcel would be less expensive to send LTL if you upped their weight to 315 pounds, can make all the difference during mode selection because it allows you to base your decision not just on your shipment's current characteristics, but on your valid weight break options for each destination.

If you're worried about the impact on service levels throughout the automated process, the most efficient way to make sure that they don't drop is to partner with a third party supply chain technology provider that has the ability to benchmark your carriers' service levels using historical data, and thereby determine whether or not a mode change will impact service levels. This data can be loaded into your automated system so that it is available to users before mode selection takes place. (One advantage of going through a neutral third party provider rather than your carrier when it comes to automation in general is greater ease when it comes to making customized modifications to your system.)

One roadblock—aside from the initial system integration and/or purchasing costs, which can be significant—to implementing an automated routing system is that you may be unable to use it in every instance if your carrier agreement provides you with incentives based on the revenue your business is expected to generate for them. This type of arrangement could keep you from being able to choose a different carrier or alternate mode, even though you would save money and/or improve service levels by doing so. It can also cause you to do things like treat shipments that should be shipped as LTL as parcels, or to perform other, similar actions that force you to cannibalize your company's transportation savings potential. If you're scratching your head over mode conversion options now, just wait until you've bitten off the hand that was doing the scratching! Now, there's a *real* problem.

All jokes aside, you should never allow a carrier to eliminate your options using the handcuff approach to mode selection described above. If your current carrier agreement does contain stipulations that affect mode selection, you would be wise to reopen your contract and request that changes be made to any portion that penalizes you for moving volume to a less expensive mode. Once rate discussions recommence, try to resist the urge to take a hard line or accusatory tone with your carrier; you'll have more success at maintaining a healthy partnership if you lead by simply expressing a desire to take greater control of your supply chain, and then take the time to explain the ways in which you feel your efforts will eventually take certain burdens off of your carrier. When able, use data to back up your claims. Your carrier will most definitely be afraid of losing volume, but if they want your business enough, you should be able to achieve compliance.