

## Lead Time vs. Decreased Costs - By BridgeNet Solutions

Today, many companies that want to reduce transportation costs concentrate on network design and carrier negotiation, since both methods can provide dramatic results. But few companies realize that there's a closer source of savings, one that requires no capital investment and is relatively easy to implement. By altering the load tendering process, a shipper can significantly reduce transportation costs. We will help to explain some of the factors that cause a higher rejection of load tenders, and what your company can do to take advantage of the practical results and realize savings in transportation costs.

**Routing guide depth drives transportation costs.** While a carrier's rates in the shipper's routing guide are contractually agreed upon, it is understood that a carrier will not always have the assets available to accept the load. If the load is rejected, the shipper tries the next carrier in its routing guide, and so on, until the load is successfully tendered.



Sometimes, it takes more than five tenders before a carrier is found who will haul the load. The deeper the shipper goes into the routing guide, the greater the rate per mile they will have to pay. Overall, with each step down the routing guide, shippers pay about \$.06 per mile more in rates. This translates into an average increase of over \$26 per load each time the load is rejected.

**Tender lead time affects the likelihood that preferred carriers will accept a load.** The deeper the shipper delves into the routing guide to cover the load, the more important lead time becomes in the cost equation. In fact, the more lead time a carrier has between the tender and the pickup day, the more likely the first carrier in the routing guide is to accept the load. Loads that had shorter lead times had a much higher level of tender rejections.

Loads with lead times longer than two days were the least likely to be rejected by carriers. Even at 48 hours, there's a real savings opportunity. If a company can afford more than two days lead time, there's even more potential savings to be had, as a stretch goal. It makes sense that carriers would accept a higher percentage of loads a week in advance of pickup, since much of their trucking capacity is uncommitted at that point. Trying to tender inside of a week increases the risk that the carrier has already committed its assets and will therefore reject tenders at a higher frequency than at the longer lead times.

**Modifying lead time to increase carrier tender acceptance rates can reduce transportation costs.** Increasing average lead time to between two and five days will markedly reduce transportation costs for a shipper. Companies can increase lead time by contacting carriers when shipments are planned before actual loading. By improving the average lead time beyond two days, a shipper could further reduce their total transportation spend.

Some shippers are capable of forecasting base volume in lanes that are highly repetitive. It should be possible for those shippers to use this information to commit to loads in advance. Advance planning would mean that a smaller number of loads will need to be tendered close to the pickup date at a higher cost. Even making smaller changes in lead time can make a significant difference in transportation costs. Increasing lead time from less than two days to over three days could improve the carrier acceptance rate and save an average of approximately \$15 per load. While this might seem a modest savings, if applied to a shipper's 40,000 loads per year, the shipper would save \$600,000 on their annual transportation costs.