



# Transportation Management

## *A "New Landscape"*

November, 2008



# Here's What Companies Are Facing

- **Increasing business pressures that are mandating C-Level attention due to the implications on overall business performance.**
- **Global Supply Chains are increasing business risk while logistics costs as a percent of sales are continuing to rise.**
  - Transportation management used to be considered a tactical concern — a necessary cost of doing business, which had little impact on margins or profitability.
  - Today, rising costs, changes to the manufacturing model, and increased pressures for improved service have made transportation management a strategic issue.
- **Sustainability**
  - Sustainability initiatives are not only about public image, but can be an important element in meeting your corporate ROI objectives

**New volumes of international east-west inventory flows are causing havoc on older supply chains designed primarily for domestic flow of goods**

# Transportation and the Supply Chain

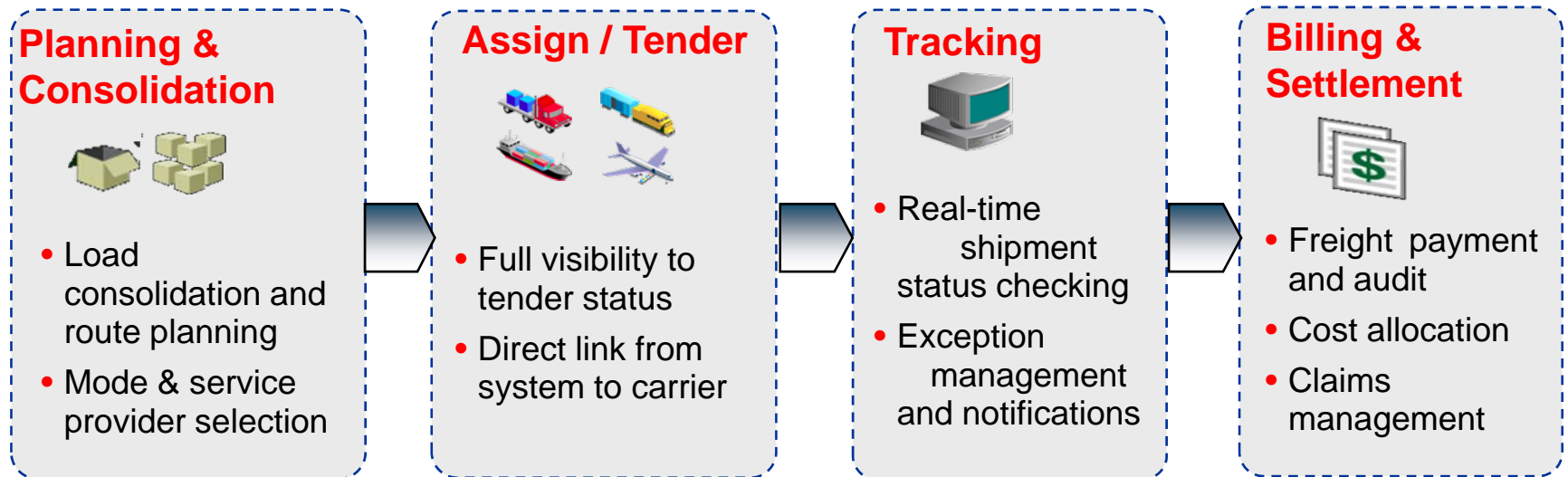
- Transportation is no longer considered a 'standalone' budget item to be monitored, it is now a critical component of overall supply chain excellence
- Long gone are the days of integration between selected strategic partners, where the rest of the community is depending on fax, phone, and email to coordinate activities – not supporting the increased need for speed and efficiency of the movement of goods
- Challenges span the entire supply chain, from rising fuel costs to the lack of visibility affecting Supply Chain performance and security
- Changes in the flow of global trade are exacerbating capacity shortages
- Supply Chains are striving to become Demand-driven supply chains, requiring them to be more dynamic and flexible from both a domestic and global perspective
- This relies heavily on a solid technology infrastructure which supports global business process execution



## AGENDA

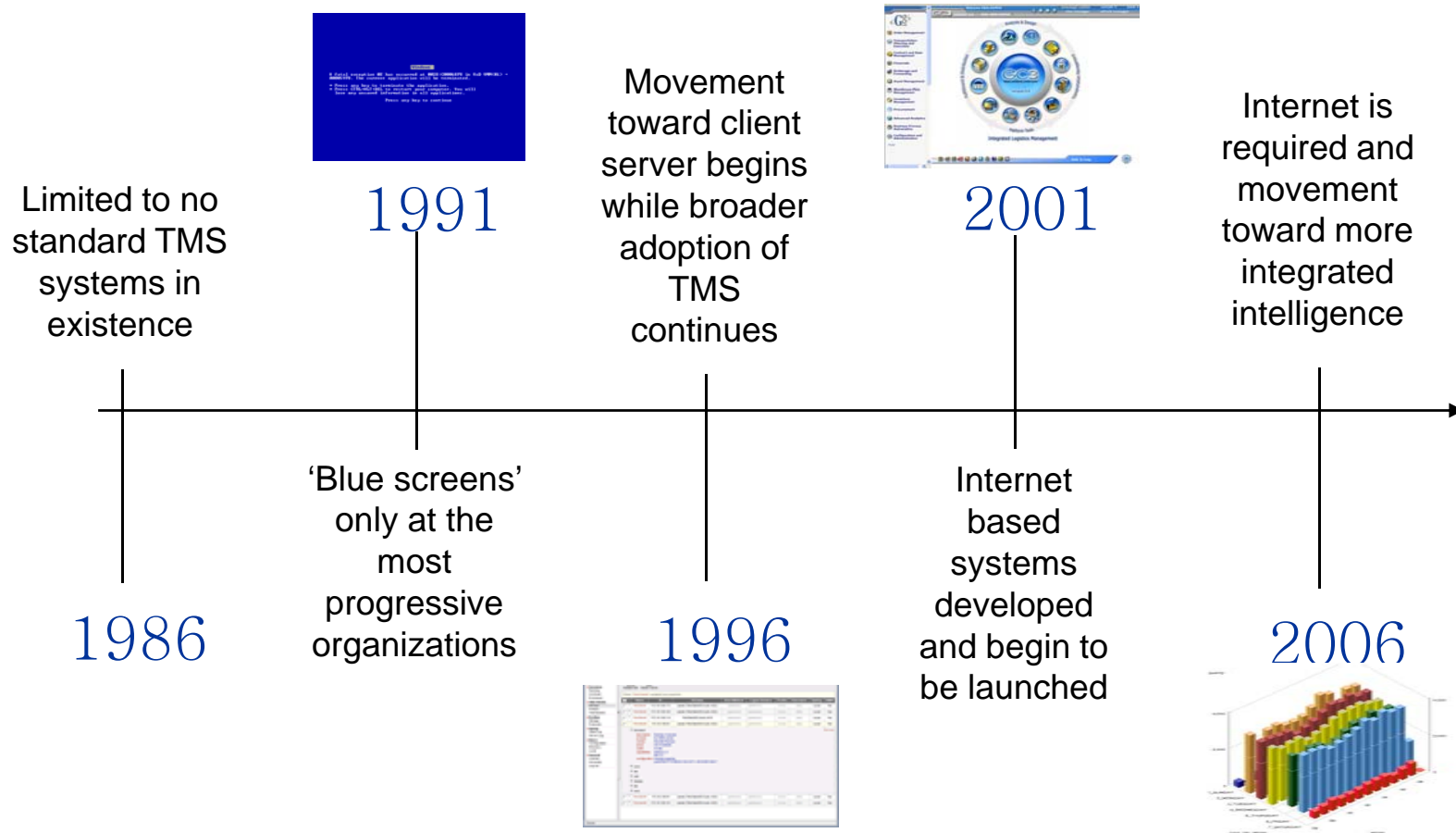
- **History of TMS**
- **Current Market Conditions**
- **The New Breed of TMS**
- **Questions**

# Transportation Management Systems 101



**Historically, the main objective was to minimize transportation costs while improving load consolidation and route planning**

# TMS Evolvement Over the Years



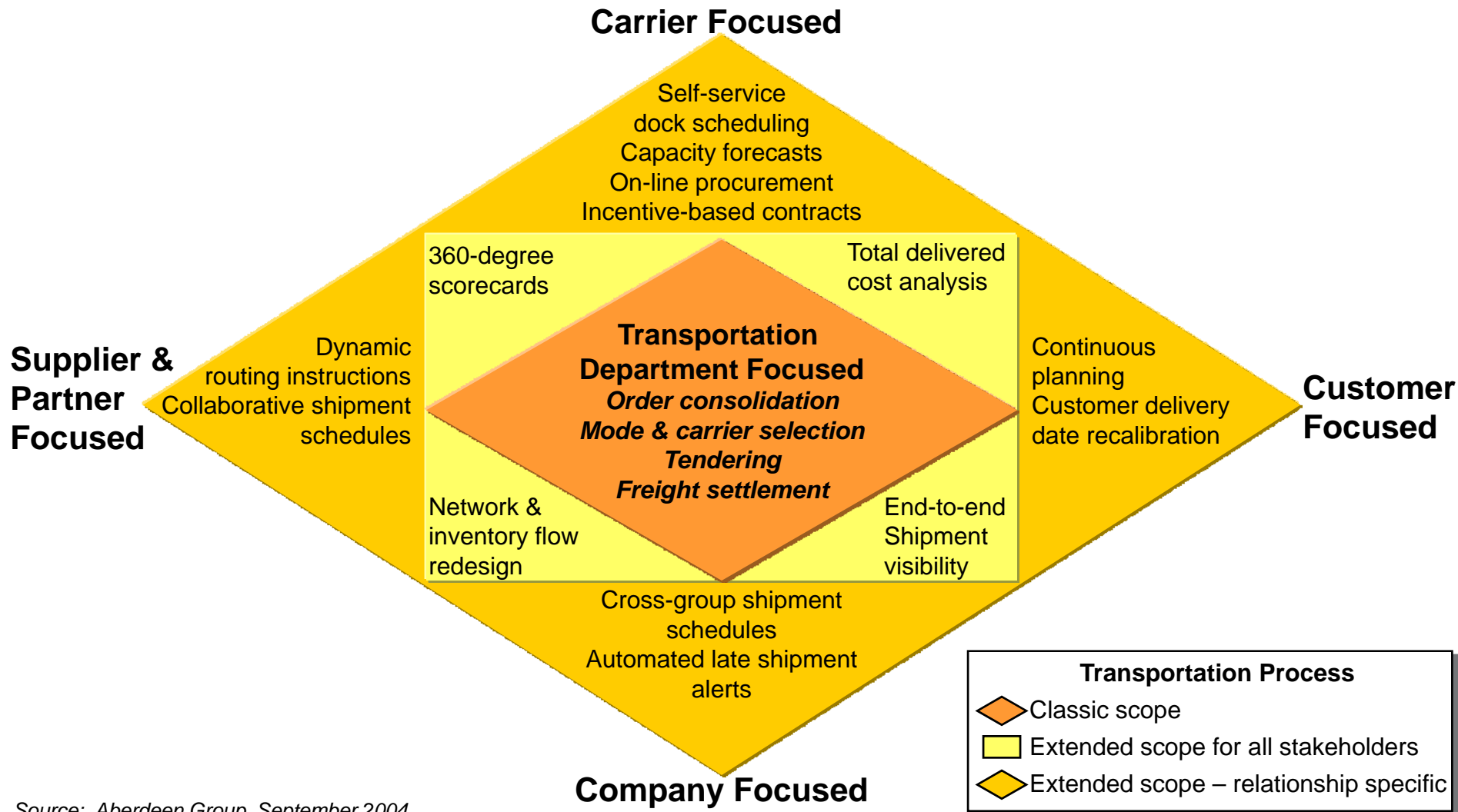
**Standalone consolidation tools to enterprise wide optimization engines**

# Changing Landscapes are Forcing Companies' Requirements of Transportation Management

- Carrier related – tightening freight capacity, driver shortages, hours-of-service regulations, fuel surcharges
- Changing technology – TMS application functionality, RFID, real-time visibility
- Accelerating customer demands – faster order cycle time, more frequent time specific deliveries
- Extended supply chains – increased inbound responsibility, synchronized/global supply chains with partners, total delivered cost objective
- Corporate growth strategies – acquisitions, market growth

**Cost reduction pressures continue in a changing environment. Transportation Management Groups must create new cost reduction opportunities to maintain competitive advantage**

# Pressures on Transportation Performance are Driven from Multiple Directions



Source: Aberdeen Group, September 2004





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## AGENDA

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- Conclusion

## The Current TMS Market

- Transportation networks are complex and global in nature, requiring a more advanced TMS (planning, procurement, freight audit and pay, visibility and globalization)
- Increasing business process complexity, resource constraints, and rising and volatile operational costs
- Legacy TMS's no longer cut it, due to various challenges
  - Legacy systems historically have been 'customized', making it difficult to maintain and support various levels of change i.e., international and multi-modal
  - Planning has been hindered by inaccurate analytics and limited cost information
  - Unable to support centralized planning at an enterprise level
  - Lack of global functionality

**Rising freight costs, increasing supply chain complexity and globalization, create a compelling event for TMS, with 10% annual growth projected over the next 5 years**

## Requirements are Increasing

- Many vendors have strong North-American centric products, but this is no longer sufficient
- There is a need for enhanced and global capabilities, such as;
  - Freight procurement
  - Freight audit and payment
  - Multi-modal support (parcel, LTL, TL, rail, air, ocean, private/dedicated fleets)
  - Global logistics (language, currency, geo-data rules)
  - Global visibility and event management
  - Performance management
  - Trading partner portals
- Customers demand accurate delivery status and cost information

**Inbound freight and international shipments are gaining momentum, where the focus once was domestic outbound transportation**

## Our Perspective of the Current Market

- The Global Supply Chain is here to stay
  - Global Trade requires the following:
    - Up to 8 times more hand offs
    - Up to 9 times greater transit times
    - Up to 7 times more cost elements
    - Up to 5 times more documents
- Logistics best practices are more important than ever
- Surge in export volumes due to falling value of the US dollar, and increased levels of global trade
- Rising fuel costs, driver shortages continue to plague the industry
- Aging logistics infrastructure, built from a domestic perspective
- Total cost vs. transportation cost

**In a recent study conducted by Aberdeen, only 39% of companies were utilizing a TMS, and over 40% were achieving 90% on-time delivery**

## Typical Barriers and Challenges Remain

- Management does not view transportation as a strategic priority
- Lack of good cost data (internal and external), and supply chain information
- Silo'd view of transportation within business units
- Inefficient internal business processes (i.e. delivery service levels, order cut off times) or frequent/late order changes
- IT systems unable to support end to end transportation processes
- Corporate alignment of policies and procedures
- Organizational change barriers
- Transportation is not a centralized function within the organization

**Moving up the TMS maturity model from paper-based processes to full automation and analytics can take years**

# Along With Changing Market Dynamics

## Marketplace

- Need to optimize (trucks, containers, buildings, people, equipment and manpower)
- Asset management/utilization
- Globalization driving complex global supply chains
- Pressure on operational efficiencies
- Rising Logistics costs

## Customer

- Customers demanding more/better/faster
- Expect real-time information
- Customers want integrated information (exception noticing)
- Lower costs
- Escalating end-customer expectations

## Technology

- New Channels
- Instant Information
- Transponders on vehicles
- RFID
- Wireless and Mobility

## Environment

- Governmental influences, mandates and new regulatory controls
- GREEN

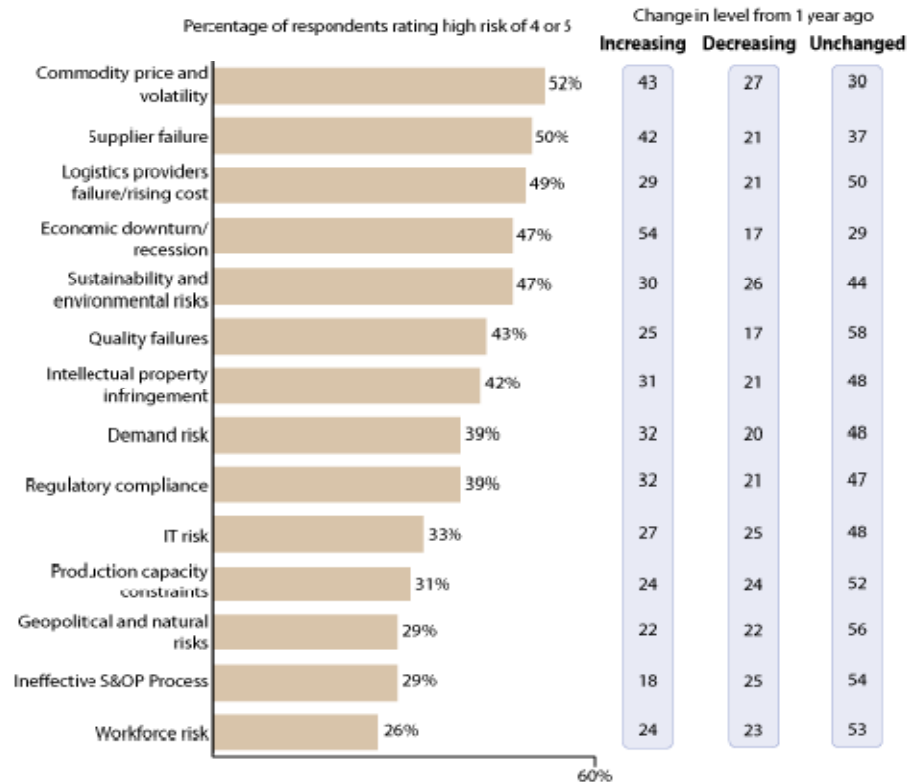


## Operating Costs

- Variable costs uncontrollable — drivers, escalating fuel costs, etc.
- Low margin business (cost containment and avoidance) — need to get more revenue from same cost basis > lower per unit costs
- Capacity shortages of railcars, ocean slots, and ports
- Increased regulation on hours of service rules and security procedures

# Companies Pursue Transportation Initiatives Because of

**Figure 1:** What's keeping supply chain executives awake at night?



On a scale from 1 to 5, where 1 is LOW RISK and 5 is HIGH RISK; how would you rate the following supply chain risks facing your organization? Has the risk level increased, decreased, or remained the same compared to one year ago?

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Source: AMR Research, 2008

**Risks associated with transportation provider service failure, port delays, overall transportation capacity constraints and rising costs ranks third**



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# The New Breed

**‘To achieve higher service levels, better asset utilization, and lower logistics costs in the modern supply chain, a new breed of transportation management solution (TMS) is required — one that supports multiple modes and many languages at a reasonable cost.’**

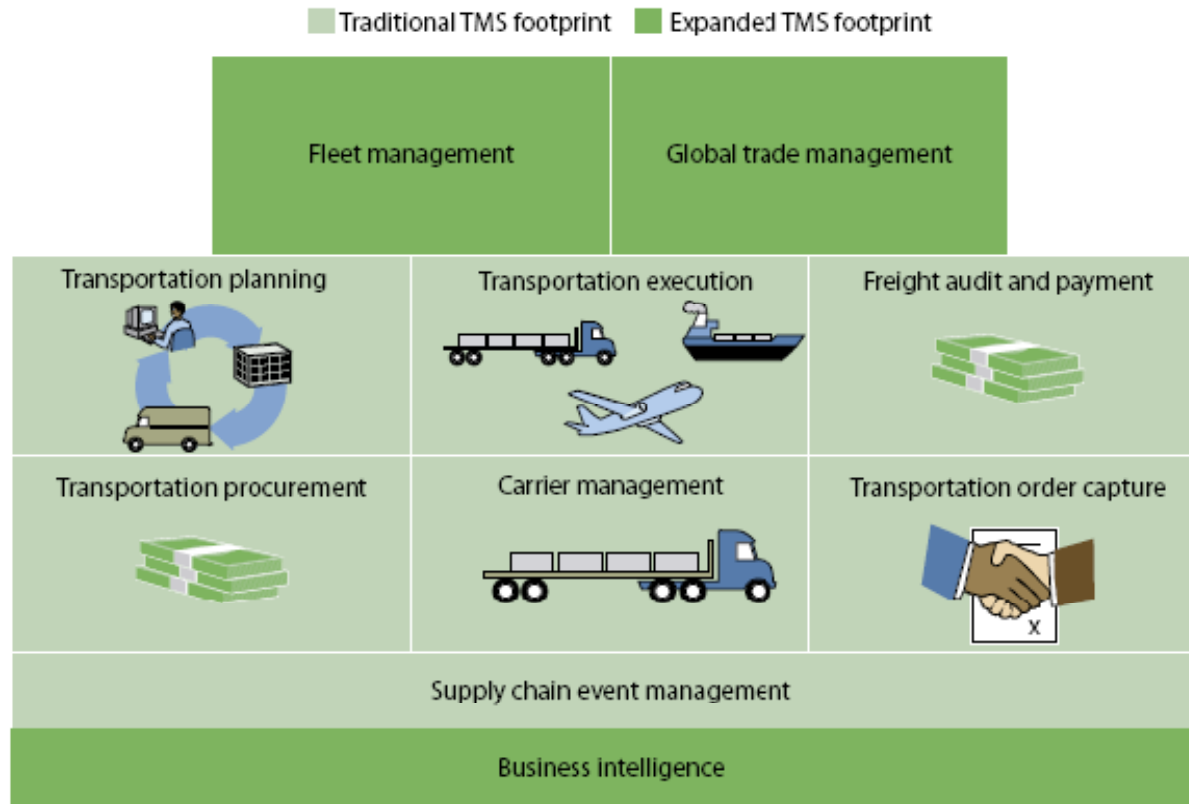
**- *Forrester Wave, Q1 2008***

**‘Planning and execution were traditionally the focus of TMS evaluations, but Gartner now finds buyers equally interested in the overall breadth of TMS, especially in such areas as procurement, freight audit and payment, collaboration and globalization.’**

**- *Gartner Magic Quadrant, 2007***

# Today's TMS

**Figure 3** The Expanding Footprint Of TMS



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Source: Forrester Research, Inc.

**Defining metrics is key to measuring and reporting progress on transportation initiatives**

# The New Breed



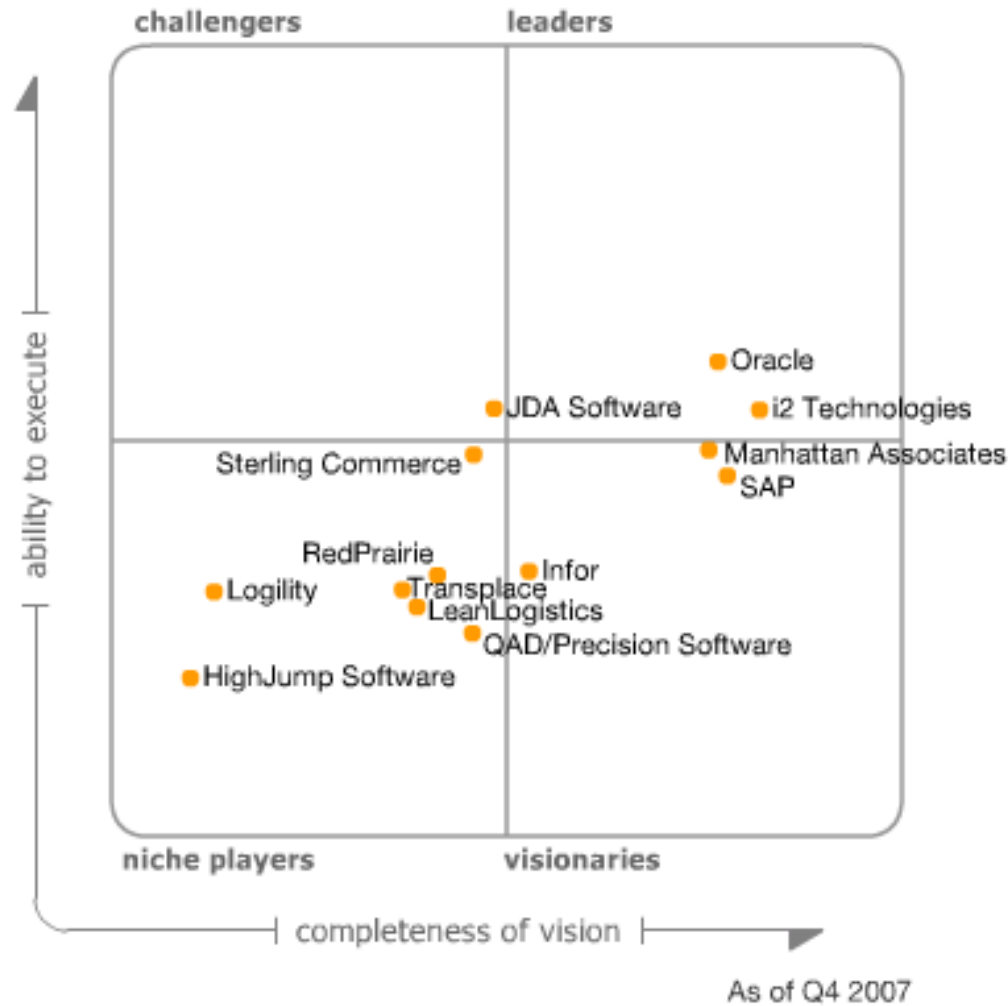
- **Visibility of ALL orders**
  - Customers
  - Vendors/Suppliers
    - Those managed today
    - Those not yet managed
  - Internal
    - Transfers, salvage, etc
- **Technology adequate to support a strategic corporate vision and operating model**
- **Ability to support redefined, cross functional, business processes**
- **Global in Scope**
- **Supply Chain collaboration**
  - Suppliers, contract manufacturers
  - Carriers, 3PLS, forwarders, brokers
  - Process and system integration
- **Flexibility**
  - Ability to adapt quickly to new supply chain requirements and opportunities

## Benefits of a TMS

- Reduction in high-cost expedited shipments due to improved planning
- Increased load consolidation (parcel to LTL, LTL to TL)
- Automated carrier selection based on criteria of cost, mode, carrier performance, and accessorial charges
- Invoice reconciliation for freight audit and payment activities
- Historical carrier performance data to be used in contract negotiations
- Improved asset utilization (tractors, trailers, and drivers)
- Lower administrative costs
- Greater visibility

**Companies who have done this expect to save up to 8% a year on transportation costs**

# Today's Vendors



Source: Gartner (January 2008)



Source: Gartner (January 2008)

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