How to Engage Transport and Logistics Service Providers

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Outline

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- Session Overview & Learning Outcomes.
- Logistics Industry and Firm Context.
- Engagement Techniques for Supply Chain Improvements.

Session Overview

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- Managing the potential complexity of today's supply chains and what you can do remain competitive is at the forefront of strategic decision making.
- Economic and technological forces are dramatically shaping the business environment and how you serve your customers.
- Every resilient supply chain is a network of commercial relationship where all parties need to successfully engage with logistics service providers at a local, cross-border or even international level.

Learning Outcomes

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- Illustrate how the perspective of senior managers and logistics executives affects how they engage with their customers.
- Understand how both the global economy and local customer demands are influencing how logistics and transportation firms structure their services.
- Evaluate how various engagement techniques could be applied to support your small manufacturing company's supply chain improvement initiatives, including the successful sourcing of transportation and logistics services.

Engagement Context

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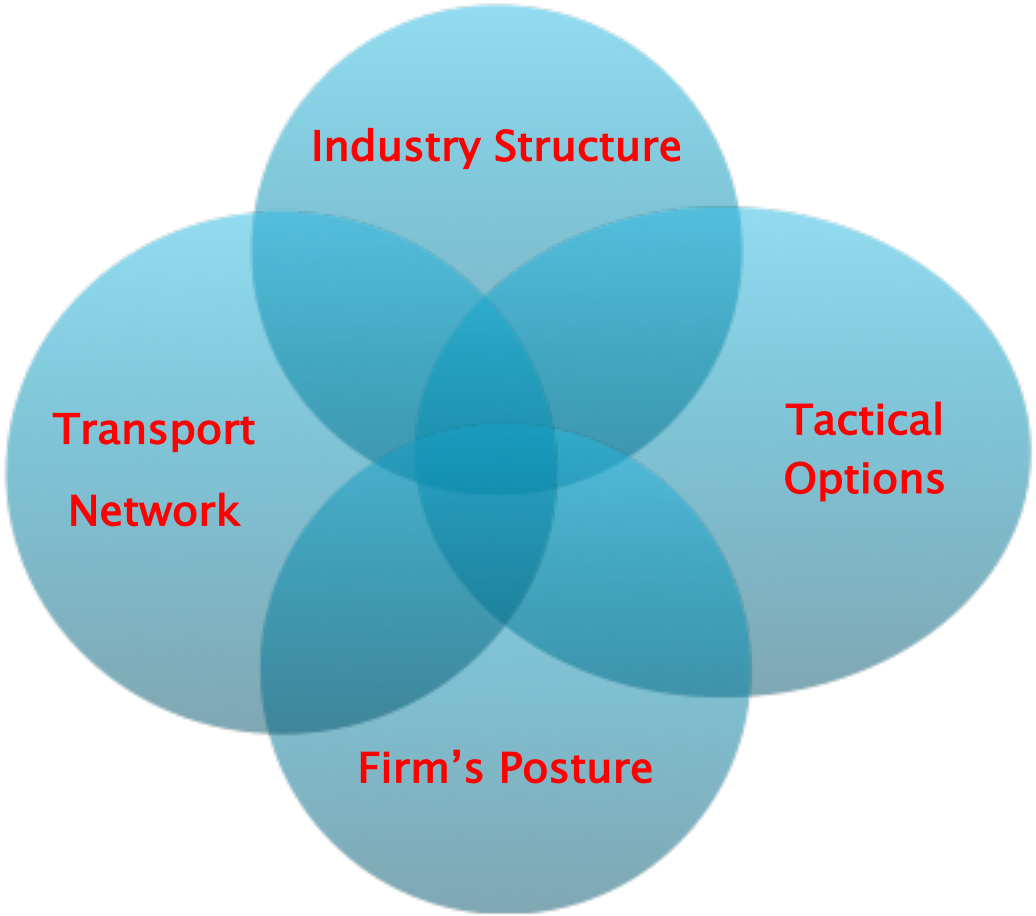

Plan-Buy-Make-Move-Store-Sell

Industry Structure Influences Engagement Approach

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- **Perfect Competition:** A perfectly competitive industry, therefore, has no single market leader or monopolistic firm.
- **Monopoly:** single producer or supplier of a product or a service that has no close substitutes.
- **Monopolistic Competition:** an industry infrastructure that has characteristics of competition and monopoly.
- **Oligopoly**: industry infrastructure that is dominated by a limited number of firms that function independently of each other.

Possible Engagement Postures

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Resistance	Proactive	Reactive	Rapid
Closed to improvement	Radical leadership	Organizational realignment	Downsizing & restructuring
Can be open to improvement	Top-down experimentation	*Process reengineering*	Autonomous restructuring
Open to improvement	*Bottom-up experimentation*	Goal cascading	*Rapid adaptation*
	Weak	Moderate	Strong

Change Force

Proactive Engagement

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- Organizations proactively seek opportunities to transform the way that they do business.
- Your organizations can influence others to embrace experimentation and is open to change itself.
- When the market is balanced and the economy is good, the drive for collaborative supply chain solutions holds the most promise.
- Achieve huge results from actively including their partners in dialogue and implementation of supply chain improvements.

Reactive Engagement

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Establishing The Need to Work Together

- Market forces are moderate, economy is experiencing growth.
- The organization is moderately resistant to change.
- These two factors often confront organizations and a new response is required for organization to successful adapt.
- Reactive engagement may be required new partners and changes to internal business processes.

Process Engineering

- New market opportunities or changes create a need to change how things are done.
- New supply chain components and capacities are being developed.
- These two changes create a reactive opportunity to take advantage of a new system that wasn't there before.
- Drives the need for a reactive engagement with new partners.

Rapid Engagement

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Structural Changes in the Industry

- Organizations that are reluctant to change usually have the greatest need for external collaboration.
- Collaboration is pulled together to meet the changing economic situation.
- Need to gather information from partners to pull together a new and emergent strategy.

Supply Chain Perspectives

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- Continuously Strive to Reduce Costs.
- Thoroughly Understand Customer Needs Increase and Customer Satisfaction.
- Maximize Profitability.
- Transit Time Reliability.
- Product Order is Complete.
- Price.
- Availability of Goods.
- Time Needed to Deliver Goods.
- Ability to Handle Peak Season or Seasonal Demand.
- Value Added Service.

SERVICE PROVIDERS

- Profit Margin.
- Return on Investment.
- Customer Service.
- Network Velocity.
- Maximize Asset Utilization and Return on Net Assets.
- Shipping Volume.
- Equipment: Availability/Commitment to Allocate Equipment.
- Freight Loss Damage.
- Technology Capacity.

Supply Chain Perspectives

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SHIPPERS

- Cost Savings
- Reduced Damages
- Improved Visibility

Conflict Area Examples

SERVICE PROVIDERS

- Profit Improvement
- Packaging Improvement
- Asset Demand Forecasting

Transport & Logistics Services

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Domestic & International Transportation

- Trucking:
  - Less than truck load,
  - Full truck load.
- Container Shipping.
- Freight Forwarders.
- Rail Intermodal.

Value-added Warehousing & Distribution

- Warehousing.
- 3PLs.

Trucking

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- **Less than Truck Load**: In the last few years domestic LTL and truckload growth was weak, while cross border truckload and LTL are more positive. Dimensional pricing came to the LTL industry with potential impact on increases in freight rates, especially in time of rising freight demand.

- **Long Distance**: Freight transport price outlook tightening and service reliability is increasing in importance.

LTL Trucking

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Is it now time to consider changes if capacity is tightening? Approaches:

- Small parcel,
- Consolidation,
- Multi-stop,
- Freight brokers and 3PLs.

LTL Price Influencers

- Improving economy.
- E-commerce growth.
- Manufacturing growth.
- Carriers are using technology to price better.
- Industry consolidation and operational changes.
- 3PLTLs are becoming a force.

Full Truck Load

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Top Shipper Characteristics Important to Price/Service Decisions

- **Dwell time/asset utilization:** Carriers most frequently commented on shipper and consignee dwell time and the influence shippers have on the carrier's ability to utilize their drivers and assets (trucks and trailers). Comments included were concerns about shipper location (e.g., congestion and distance from the highway), drop trailer opportunities, appointment setting, and load/unload times.

- **Contract terms and liability:** All carriers mentioned liability concerns related to either the freight or the drivers who are on shipper/consignee property. Payment terms, actual payment time, and detention (driver and trailer).

- **Driver experience:** Several carriers mentioned concerns related to the driver's experience at the shipper and consignee. These ranged from the check-in process and parking, to driver lounges and restrooms. In general, smaller carriers were more likely to discuss driver issues than larger carriers.

Improving Carrier Velocity

- **Leverage live load flexibility.**
- **Pre-stage freight on shipping dock.**
- **Offer appointments for loading and unloading.**
- **Palletize freight.**
- **Maintain adequate staff for loading and unloading.**
- **Use drop trailers.**

Full Truck Cost Saving

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Method	Difficulty	When	Savings
Truckload benchmarking	Easy	Firms with a significant amount of truckload spending.	Medium-High
Constraint based truckload bids	Easy	Firms with > $10 m in trucking costs.	Low-Medium
Truckload weight & cube benchmark	Easy	All firms shipping by truck.	Medium
Routing guide enforcement	More work	Firms monitoring carrier load acceptance.	Medium
Mode optimization	More work	Firms with a wide variety of products at different classes that have different break points between modes.	Medium
Simple consolidation	More work	Firms who serve the same customers on a regular basis and primarily LTL and small parcel.	Low-Medium
Multi-stop truckload	More work	Firms with a significant amount of LTL (between ¼ to ¾ of a load).	Medium
Pool points or crossdocking	More work	Firms with a high volume of shipments between 2,000 to 5,000 lbs and relatively small geographic area.	Low-Medium
Continuous moves	Still more work	Firms that have already used other strategies.	Low
Tours	Still more work	Short haul freight where firm and carrier try to avoid deadhead miles.	Low
Network modeling	Still more work	Large firms with multiple distribution points.	High

C.H. Robinson White Paper “Supply Chains – Where to Finds the Biggest, Fastest Transportation Savings”

Container Shipping

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Implications of Alliances

- Review carriers,
- Avoid single carrier or alliance use,
- Set expectations,
- Evaluate the cost impacts.

Freight Forwarders

- Freight forwarders play a vital role in expediting the movement of an estimated 70% of Canada's containerized cargo.

Container Shipping

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Freight rates rebounding from the 20-50% price drop of the last three years:

- **International trade growth,**
- **Container Alliances reconfigured service and trade lanes.**

Increasing ship size:

- **Selective use of missed, void or blank sailings or cancelled service by carriers in weak-demand months results in rolled cargo for the shipper. Introduction of fees for missed appointments.**

Possibility of massive container carrier consolidation: six to eight global container carriers by the mid-2020.

Container Shipping

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Questions to Ask before Contacting

- What are my Incoterms with my supplier or buyer?
- What is the origin and final destination of the cargo?
- What mode of service do I need? Port to port, port to door, port to inland terminal, door to door.
- Is my shipment size considered oversize or out of gage?
- Depending on the mode of transport: what size ocean container, what volume of air cargo or size of domestic cargo will be shipped.
- How is my cargo packaged? Do you need additional packaging/loading services?
- Is my cargo considered hazardous? Do I have the IMDG or MSDC codes?
- Is there any sort of import or export license required for the import or export cargo?
- If cargo will go to a fulfillment center will you need additional repackaging services, labeling, pick and pack or other services?

Charges

Ocean Costs

- Ocean freight:
  - Base rate,
  - Peak season,
  - Rate restoration initiative.
- Bunker adjustment factor.
- Low sulphur surcharge.
- ISPS/carrier security.
- Currency adjustment factor.
- Origin document fee.
- Advance manifest.

Landside Costs

- Drayage.
- Terminal handling charge.
- Wharfage.

Freight Forwarders

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10 Tips for Choosing Right Freight Forwarder

- Understand your in internal requirements,
- Research their industry,
- Can they handle multiple types of shipments,
- Do they have the experience you need?
- How will they manage your operations/shipment?
- Do they have a network of agents in your destination county?
- Put together a checklist of requirements?
- Do they have multiple service contracts?
- Does your freight forwarder have cargo insurance?

Container Charges

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How To Avoid Demurrage Charges

- Always check with your freight forwarder in advance to clarify the amount of free days allowed.
- Ensure that your shipment is pre-cleared as early as possible. This includes submitting any necessary documentation in a timely fashion.
- For shipments in volume, consider requesting extended free time from your freight forwarder or carrier.
- If your shipment is routed onwards, ensure that the assigned free time is sufficient. Clarify details in advance with your trucking company.

How to Avoid Detention and Per Diem Charges

- Ideally, your trucking company and truckers shouldn't have to wait. Ensure that loading/unloading of your shipment can proceed without delays.
- Clarify your schedule in advance with your freight forwarder or trucking company to secure your time slots. Last-minute arrangements tend to result in delays at the loading facility.

Intermodal Rail Market

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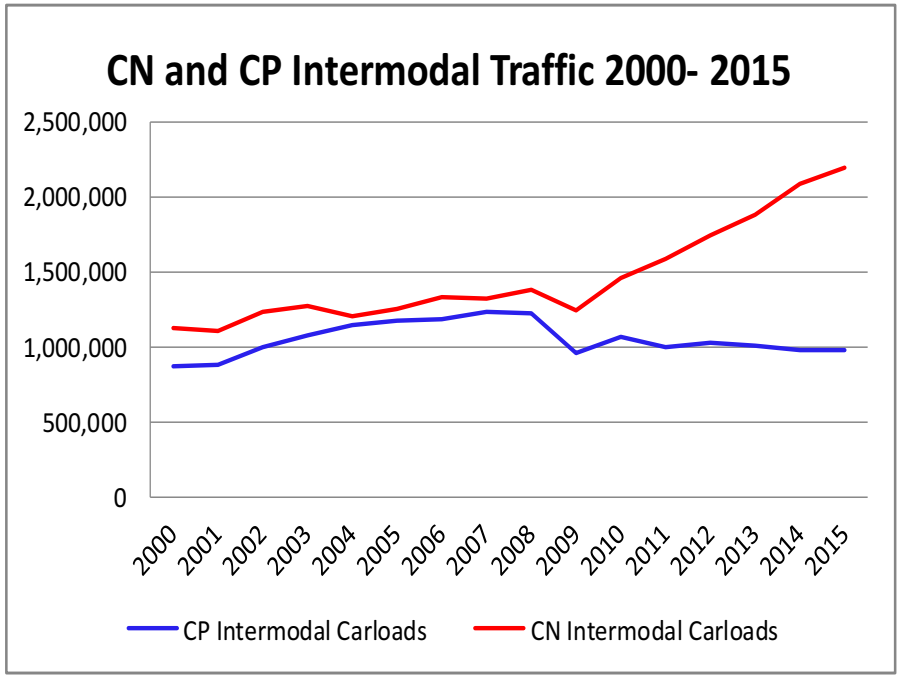
- Class 1 railway intermodal marketing strategies and commercial behaviour are having a significant impact on the container flows, but macro economic factors are driving demand.

- CN's growth efforts have significantly outpaced CP's. Yet, both Class 1 rail carriers in Canada have experienced a greater increase in international intermodal compared to US based railroads.



Rail Intermodal

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Industry Developments

- With the growing number of shipping lines partners now doing business with CN they have a much bigger pool of international containers at their disposal this year to grow their domestic repositioning program.

- CP is doing some things to enhance their network to make them more attractive. CP is investing in some transfer facilities, transload facilities the company had not had in the past, more specifically Vancouver.

Services

- **Domestic.**

- **International.**

Is it time to take advantage of container match-back opportunities?

3PL Relationships

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North American Industry Facts

- Transportation management (TM),
- Warehouse management (WM),
- Value-added TM or WM,
- Integrated solutions,
- Dedicated contract carriage,
- Supply chain management,
- International,
- Intermodal,
- Lead logistics provider.

What Type of Relationship

- 65.5% of the 3PL customer relationships are tactical, 34.5% are more strategic. Number of services per 3PL customer relationship (between 2.63 and 2.95).

3PL Service Dimensions

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Size and Scale:

- Geographic coverage,
- Integrated service offering.

Price:

- Must cover all costs variables, semi variable, and fixed in the long-term.

- **Vertical Industry Expertise.**
- **Value-added Services.**
- **People.**
- **Information Technology.**
- **Continuous Improvement.**
- **Asset vs. Non-Asset.**

Selecting and Managing a 3PL

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Best Practices Selection:

- Start with a thorough needs assessment.
- Plan the 3PL selection process:
  - Clear, firm, schedule,
  - Checklist for 3PL evaluation criteria, leading to a final decision,
  - Request for information process,
  - The proposal process: RFQ,RFP, RFPS, RFP

Managing

- Contracting: length. Transport contracts are shorter than for DC operations, contract termination, payment schedule & terms,
- Performance measurement: productivity/cost, accuracy, on tine/service. Quality, safety, ease of doing business, compliance
- Managing the on-going relationship.

Value-added Warehousing & Distribution Pricing Structure

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Rate Structure	Comments	Risk to 3PL	Average Contract Length	Average Expected Operating Margin	Contract Risk Add On
Cost plus percent	High-volume or space centric, dedicated workforce, customized facility, multiple types of value-added services. Favoured by 3Pls. Customers need to watch for excessive resources, loaded direct and indirect labour, G&A, technology and interest costs are examples of inflated budget items.	Low	3-5 years	6 to 10%	3 to 5%
Cost plus a fixed monthly management fee		Low to Moderate	3-5 years	8 to 12%	3 to 5%
Cost as a percent of sales	Typical rates are 4 to 7% of monthly gross sales with a minimum guarantee to cover fixed costs. The 3PL benefit through economies of scale; however, the 3Pl tends to lose during low-volume months.	Moderate to High	2-3 years	10 to 15%	3 to 5%
Unit or transaction fees	Detailed costs are aligned with required resources. Customers need to ensure there's an open and shared analysis of all activity based costing,	Moderate to High	30 days to 3 years	10 to 15%	3 to 5%

Contract risk examples for 3PLs are minimal or no shrinkage allowance, high insurance, expectations not incorporated into rates, capital expenditures and large investments amortized schedules beyond contract length, short contract lengths, and termination without cause.

Data Source: Armstrong & Associates, Inc.

- Slow down and take the steps to get engagement right before you start any work.
- Don’t outsource what is core.
- Understand your baseline and benchmarks before you start to engage.
- Ensure potential suppliers understand your business.
- Develop clearly defined and measurable desired outcomes.
- Identify risks before you transition the work.
- Establish a pricing model with incentives that encourage service providers to put skin in the game.
- Develop a governance structure based on insight versus oversight.

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