

WHITE PAPER

# Savings through Transportation Sourcing—Done Correctly

How TranzAct aided Morton Salt's Transportation Sourcing Event, saving them money and helping win NASSTRAC's Shipper of the Year Award.



Logistics Management Solutions

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# How Transportation Sourcing Can Achieve Savings for Your Company

There is a right way and a wrong way to perform a transportation sourcing event and, though the methods share many common attributes, the results are drastically different.

Recently, TranzAct helped Morton Salt conduct a successful procurement event, as documented in the October, 2015, issue of Logistics Management Magazine. Morton's success with this sourcing event resulted in their being awarded NASSTRAC's Shipper of the Year award for 2015. Needless-to-say, Morton's sourcing event was done the right way.

In this White Paper, we will examine the Morton Salt sourcing event and results, delineate the differences between the right way and the wrong way of performing a sourcing event, and define TranzAct's proprietary process—and the unique benefits that you can realize.

## Morton Salt Success Story

With transportation representing a significant percentage of cost-of-goods-sold, Morton Salt had considerable incentive to reduce its transportation costs through a sourcing event.

Morton's key objective was to leverage its total spend to reduce transportation costs while improving service—achieving both consistent capacity and reliable service. A secondary objective was to ensure that they had sufficient seasonal capacity for their Ice Melt products during the winter. They also sought to properly vet carriers and achieve stronger carrier relationships through standardized carrier contracts and ways-of-working.

Morton's goal was to evaluate all alternate transportation options, including the key variables of cost, time, capacity, and delivery parameters. They wanted to determine the best carrier mix, carrier capacity, type and number of lift assets (since they were not limited to dry van transport), and the positioning of these assets.

TranzAct collaborated with Morton throughout the five month sourcing project, providing expertise, business processes and procedures, and technology tools. TranzAct helped organize an RFP for Morton's 4,700 lanes, and over 300 carriers, providing project scope, methods, control, and discipline.

TranzAct collected, then scrubbed, Morton's baseline historical shipment data, including carrier pricing; carriers and brokers used; and Morton's facilities, lanes, products, and shipping characteristics. These data were then formatted into TranzAct's standard RFP template for distribution to the carriers. (The RFP was actually split into two separate RFPs—one for the U.S. and one for Canada.)

In addition to Morton's incumbent carriers, new carriers were introduced by TranzAct from its network. TranzAct made its selection based on carriers who were qualified, capable, would be interested in Morton's business, and would provide good pricing at the proper service levels. TranzAct then vetted all carriers employing its ShipperShield tool and processes, confirming their insurance, operating authority, and

financial condition, and provided Morton with both its standard carrier and broker contracts.

TranzAct managed carrier communications from inception to the final award. With the bid package prepared and the carrier list selected and vetted, Morton and TranzAct conducted multiple web-based kick-off presentations to invited candidate carriers. The two-part presentation included both a description of Morton's freight and facilities and Morton's ways-of-working; and the bid process and the project timeline. TranzAct also facilitated the distribution and collection of all RFP and response information.

Upon submission of the carrier bids, Morton and TranzAct analyzed the scenarios to select a primary and secondary carrier for each individual lane to meet the savings and service-level Morton desired. The team modeled alternate strategies and ran iterative scenarios to predict actual costs and service levels to determine the optimum transportation plan for Morton.

Scenarios evaluated included: the lowest overall cost; the lowest costs, but favoring incumbent carriers; lowest cost considering carriers' committed capacity and service level; and alternating brokers versus asset-based carriers. Different equipment types were also examined where applicable, including: pneumatics, flatbeds, hopper trucks, and dump trucks.

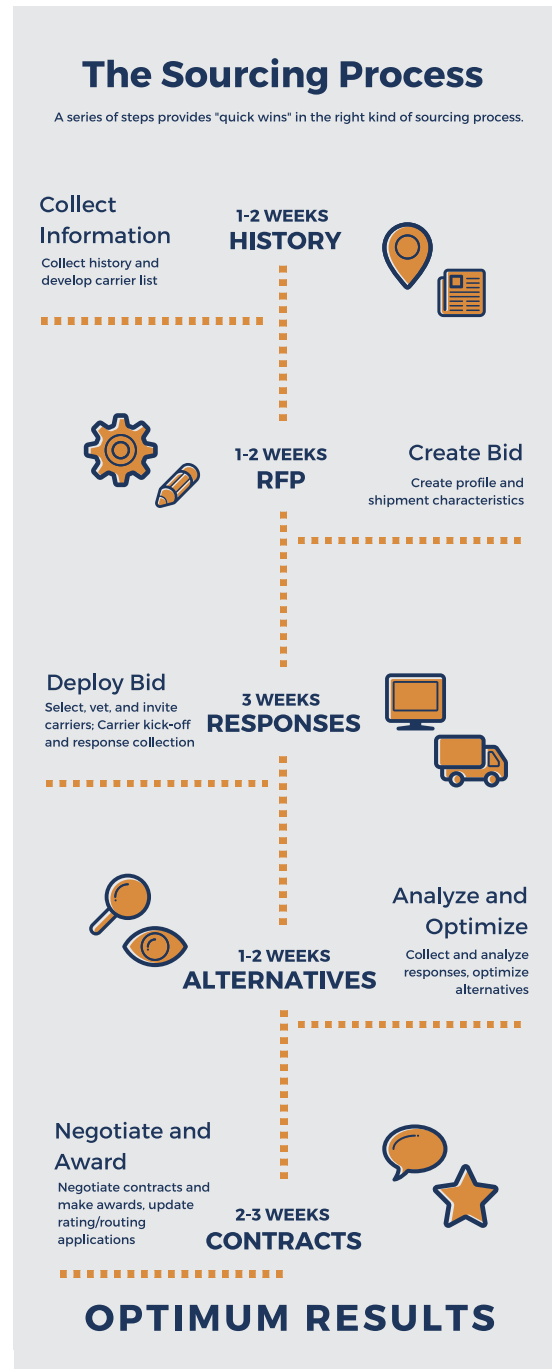
Then additional scenarios were run varying the mix of incumbents, eliminating carriers with only one lane, varying mix of brokers, and developing the savings for each alternative and benchmarking against comparable data from TranzAct's network.

TranzAct helped facilitate multiple rounds of negotiation with the carriers to get best possible pricing and leveraged its relationships with specific carriers to achieve more favorable pricing when possible. TranzAct then made database updates, based on Morton requirements, and formatted the final analysis to Morton's specifications, so they could absorb the rates and routes into their internal systems.

At the project conclusion, Morton received not only savings and assured capacity, but valuable data and

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-Todd Bulmash,  
Logistics Analyst for Morton Salt



alternative scenarios to better plan their transportation spend going forward. While Morton chooses not to disclose the specific savings it achieved through this process, they were significant.

Further, they believe they achieved the best rates, ensured service, protected their best carrier relationships, and formed some new relationships for the optimum result going forward.

“TranzAct provided us with extremely valuable tools and services,” states Todd Bulmash, Logistics Analyst for Morton Salt. “They expedited the process and delivered an optimum result that we could not have achieved on our own.”

## Sourcing—the Right Way vs. the Wrong Way

Though Morton’s specific savings are not disclosed, TranzAct’s experiential results from conducting scores of procurements for other clients range from 5%-16% for Truckload sourcing events and from 12%-26% for LTL sourcing events. These savings have been both sustainable and implemented with the proper, and promised, level of service.

And that is the difference between the right way and the wrong way—both methods deliver paper savings, the right way realizes those savings!

One confounding issue is that a sourcing event is conducted with the same basic process steps under both the right way and the wrong way—only the execution quality, carrier relationship, and the conclusion are different. When senior management is presented with multiple vendors hawking the substantial savings resulting from a sourcing event, it is often difficult for them to anticipate a difference until it is too late.

### The Wrong Way

When done incorrectly, sourcing events result in the lowest possible rates, but no carriers will pick-up or carry your freight for those rates. We call these “phantom rates.”

Further, if you had a core of carriers that serviced your shipping requirements before your wrong way sourcing event, chances are they will move on to other shippers and will no longer have spare capacity for you—even at your old rates. You may now have better paper rates than anyone, but you end up calling the high-cost brokers to get your freight moved!

Over the years, we have seen too many shippers deceived by consultants and other intermediaries who conduct sourcing events with disastrous results.

Recently, an industry associate (and not a TranzAct client) called to say that their corporate office had employed a well-known logistics consulting firm to conduct a corporate-wide sourcing event. The consultant sold senior management by representing that they could leverage the corporate-wide volume to get much better rates.

Our friend told us that most frequently he could not get the newly-contracted carriers to pick-up his freight at the quoted cost. When they did, their performance was atrocious—and his division was fined by his customers for late deliveries. As with others, when he went back to his core carrier base, they were no longer available to service his needs. Instead of the promised savings, he experienced an overall 15% INCREASE in his transportation cost—some savings!

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## The Right Way

When done correctly, sourcing events can realize significant savings. You can improve your service and your carrier relationships, and with proper incentives, your carriers are happy too. In order for the results of a sourcing event to deliver savings and to be sustainable, both parties must win. Your carriers must acquire good business that they can manage profitably. If you negotiate your carriers into an unprofitable position in times of excess capacity, yours will be the first business they abandon when capacity becomes tight, or a better shipment alternative is presented.

We believe the right way is significantly different, not in its process steps, but in its thoroughness, accuracy, and detail at each process stage. The right way delivers competitive advantage in many of those process steps.

You collect and summarize shipment history, and carriers and their rates, in formulating an RFP. When complete, this communicates your network requirements to your carriers and provides a baseline to compute savings from their responses. What it does not provide you is context. In order to know where you already have good rates and where your rates are excessive, you need benchmark data—what other shippers are paying for moving comparable goods in the same lanes. Benchmarking provides focus—and competitive advantage.



You want to identify the best carriers to serve your needs. You have a list of incumbent carriers, but who else should you include? Certainly, benchmarking may identify candidate carriers that provide the best rates in your lanes, but that is just the first step. You must also determine which of those carriers are qualified and capable, will deliver the proper service, and would be interested in your business. This requires market—and carrier—knowledge resulting from regular contact with that carrier base. Knowledge of the carrier universe provides your best candidates—and competitive advantage.

Further, you want to properly vet all carriers invited to bid on your business. Just as you would when selecting suppliers, you want to ensure that your carriers are safe, secure, legal, stable, and properly insured. TranzAct employs its ShipperShield product to vet all carriers for safety, insurance, operating authority, and financial stability. During this process, it is not unusual to discover that some of a client's incumbent carriers do not have proper insurance or other qualifications. Proper vetting manages and reduces your risk—and provides competitive advantage.

Your bid package is your communication vehicle—the better and clearer it is, the better your responses will be. It must clearly describe your business and network, your product and lading characteristics, your lanes, and your service requirements. When complete, this must be communicated to your candidate carrier list and you should provide a structured mechanism so that your carriers can respond quickly and easily, and all in the same way. Well-defined and tested RFP templates and a web-based carrier response tool provide process structure and discipline. We find this is most effectively communicated through a web-hosted kick-off presentation with carriers that delineates your background and a visualization of your freight, facilities, and ways-of-working. It must also include a complete walkthrough of the bid process—how to use the web-based bidding tool, the response requirements, the carrier vetting and selection process, and the project timeline. Clear communications, instructions, and education produce superior results—and competitive advantage.

**Conducting targeted lane negotiations with your carriers based on the RFP response is a delicate balancing act. You want to achieve the best service at the lowest cost, but you want your carriers to be able to serve you profitably.**

Obviously, proper analysis of the carrier responses is a critical success factor. You must run multiple scenarios varying key attributes to properly balance cost and service. Intangibles, such as incumbency and performance history, should also be considered. When the nature of your product demands, you should also consider equipment type and availability. This implies that you should have constraint-based and dynamic bidding analysis tools and be able to run iterative scenarios. Spreadsheets will not do the job. Evaluating proper alternatives produces the ultimate and optimum conclusion—and competitive advantage.

Conducting targeted lane negotiations with your carriers based on the RFP response is a delicate balancing act. You want to achieve the best service at the lowest cost, but you want your carriers to be able to serve you profitably. This process is more than just employing contract negotiating prowess, it requires a deep understanding of carrier finances and operations. Intense carrier relationships and negotiating experience make a critical difference in the final outcome and sustainability of your results. Ensuring your carriers are satisfied with their contract with you while you enjoy the best rates and service produces the best, most sustainable business relationship—and competitive advantage.

## About TranzAct Technologies

TranzAct Technologies, Inc. is the leading provider of Transportation Spend Management Solutions and Software. TranzAct delivers state-of-the-art sourcing event management solutions that enable you to achieve optimum results from your sourcing events.

Using TranzAct's suite of services and tools, you will maximize your transportation control and effectiveness, minimize your costs, and improve your services. You will improve your practices and processes, and we'll help you achieve "best-in-class" status for your transportation and supply chain organization.

TranzAct's suite of transportation spend management solutions include: carrier sourcing, pricing, rating, freight audit and payment for all

transport modes, Constellation TMS applications, reporting, logistics diagnostics, and continuous business process improvements. We bring established processes and tools to sourcing events including RFP templates, web-based response tools, and standardized carrier and broker contracts.

For more information, visit [www.tranzact.com](http://www.tranzact.com), call **630.833.0890**, or e-mail us at [solutions@tranzact.com](mailto:solutions@tranzact.com).



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