NEW BREED LOGISTICS

WHITE PAPER

Freight Management for Mid-sized Companies:

Manage Transportation Like a Fortune 500 Company – Without Spending Millions

Mid-sized companies frequently lack the internal systems and resources required to reduce freight spending and improve overall supply chain effectiveness. As a result, they struggle to compete with larger enterprises that use these tools to take time, inventory and cost out of their supply chains.

Outsourcing to a third-party transportation management provider is an effective answer to this dilemma. They combine freight planning, execution and payment services, and systems to deliver turnkey transportation management solutions. In doing so, they help companies generate significant savings at a fraction of the time and cost of building an internal capability.

New Breed Logistics
4043 Piedmont Parkway, High Point, NC 27265
1.866.463.9273 | info@newbreed.com
www.newbreed.com

Companies are beginning to realize the promise of technology-enabled collaboration. Greater visibility to data across manufacturers, suppliers and carriers is enabling faster, better decisions and ultimately, much lower supply chain costs.

Companies that have invested heavily in systems and re-engineering of processes, both inside and outside company walls, are making the most progress. Many firms have been left behind, as they continue to manage freight on spreadsheets.

Why don't more companies implement automated, collaborative freight management solutions?

- **High investment costs.** The average transportation management system (TMS) requires an initial investment of $1.5 -$2 million and takes 11 months to implement. Factor in costs for implementation, training and hiring people to manage the system, and the minimum investment rises to approximately $3 million.
- **Inability to sell the program internally.** C-level executives often reject funding requests for freight management and logistics systems because they view these upgrades as departmental investments. In reality, freight management and logistics systems are enterprise investments that drive down overall supply chain costs, and they must be presented as such.
- **Lack of recognition of a problem.** For many C-level executives, the small year-to-year reductions in freight costs that negotiations yield are enough good news and evidence that the company should focus investments on more pressing areas. Meanwhile, the more significant benefits outsourced transportation management could provide - reduced inventory, improved sales support and faster cash flow - go wanting in favor of the lower return on investment from freight cost reductions.

Riding a shift in strategy to breakthrough results

For many companies it's no longer necessary nor advisable to watch while competitors with deeper pockets reap the benefits of automated, comprehensive freight management solutions. Outsourcing systems, planning and daily execution to a third-party transportation management provider, results in professional freight management services at about 10%-20% of the cost of implementing the same capability internally.

Although outsourcing freight operations represents a major change in companies where the function is managed internally, this major strategy shift leads to breakthrough results. Mid-sized firms can realize an 8% -15% reduction in total transportation-related costs, including overhead, within 90 days of implementation. This rapid time to value is possible because third party transportation management providers have all the required solution elements in place - software, technology platforms, automated process flows, and staff experts - to turn a decentralized, manual environment into a centralized, automated, collaborative freight management operation. The ability of a third party provider to create value is linked to three main areas of opportunity:

1) Automation,

2) Optimization and

3) Decision Support.

Opportunity: Automation

Manual processes (i.e., paperwork, tracking carrier status) consume significant freight management resources. 75% of these processes can be automated, drastically reducing labor for non-value added activities.

Automation of supply chain processes requires appropriate systems and a degree of data integration that many mid-sized companies lack. Consequently, their traffic departments are crowded with people and paper (see "Anatomy of a Freight Move" located on the following page).

What Is a Third-Party Transportation Management Provider?

Third-party transportation management providers deliver comprehensive freight management solutions, including network design, dynamic optimization, carrier selection and management, parcel management, load tendering, and freight audit and payment control. Common characteristics of effective third party providers include:

- **Centralized approach** - They combine disparate transportation functions across company divisions and regions.
- **Objective** - Non asset-based so they have no trucks to fill, and remain objective in carrier selection.
- **Carrier-friendly** - Primary focus is on forging win-win partnerships with carriers and delivering savings from improved network design and optimized freight movements.
- **Paperless** - Provide software and automated process flows as part of solution.
- **Low risk** - Shippers' costs are linked to actual savings.

Anatomy of a Freight Move

Before Automation	After Automation
Request for LTL shipment.	Order received in transportation management system (TMS) from shipper's system and system chooses lowest cost routing to meet service commitment. Sequential tendering between TMS and multiple carriers.
Traffic manager checks printed routing guide and completes paperwork.	
Calls to multiple carriers until one agrees to pick up the load the next day. Shipment is logged in spreadsheet.	
Carrier picks up goods and in-transit status is manually recorded.	Carrier picks up goods and updates delivery status in TMS via EDI. Shipper has real-time visibility to status, eliminating phone calls for status updates. Shipper's customer gets immediate answer to delivery status questions.
Shipper calls carrier for status and ETA.	
Customer asks shipper for status update. Shipper calls carrier and relays update back to customer.	
Carrier calls to notify shipper of delivery; status is manually updated.	
Paper invoice is received, approved and sent to accounting.	System generates auto rate and pay invoice, which is matched to the correct shipment. Automatic payment to carrier via electronic funds transfer.
Accounting cuts check to carrier.	
Shipper audits sample invoices and posts payment, with the likelihood of significant unidentified errors.	
Chargebacks resolved with carrier.	

Best-in-class companies rely on systems-based freight management

Aberdeen Research recently compared the transportation practices of shippers it rated "best-in-class" and poorer performing companies it rated "laggards." Compared to laggards, twice as many "best-in-class" companies use full-featured transportation management systems.

Systems implementation comprises two key elements: Software and data integration.

With regard to software, companies looking to capitalize on optimization strategies without making major systems investments are examining software as a service (SaaS). Under this model, software companies develop applications which customers purchase on a subscription basis and access over the Internet. The cost of supporting, hosting, and maintaining the software is borne by the developers. However, these systems require considerable expertise to extract value. Third party transportation management analysts working on the shipper's behalf can leverage the full functionality of these software systems to create measurable improvements.

Data integration focuses on building interfaces with carriers to enable electronic data exchange. Developing such interfaces requires corporate IT resources that are typically in short supply at mid-sized companies. Since third party providers work with multiple shippers and hundreds of carriers, they generally have these interfaces in place.

Clearly, smaller companies that wish to limit capital investments and reliance on corporate IT resources can realize faster, more cost-effective results by outsourcing. The scale of the payoff can be surprising. For example, a $1 billion dollar manufacturer with multiple U.S. factories and distribution centers employed 100 people to manage transport operations. Centralizing and automating processes allowed a controlled redeployment of the majority of this staff, improving productivity and saving millions of dollars.

Opportunity: Optimization

The benefits of incremental rate reductions are relatively minor in comparison to the value created by implementing more effective freight movement strategies. Despite the fact that optimizing freight movement can conservatively yield an 8%-15% savings on the cost of freight, carrier rate reduction continues to be a prime success barometer for many companies.

A recent case illuminates the pitfalls of prioritizing price over optimization: A request for proposal (RFP) was issued by a $900 million manufacturer. The company had separate freight management departments for its ten divisions. Shipping requirements were primarily TL and LTL. While the RFP established overall supply chain efficiency as a key objective, the proposal response template simply requested a price for each freight lane listed. Solutions for consolidation opportunities (of which there were many) and centralized freight management across divisions were not invited. As a result, potential savings of $3.5-7 million were not pursued.

Freight Optimization Strategies

Third party transportation management providers have the expertise and systems to optimize freight in the following ways:

- **Consolidation** - combining multiple shipments (from different shippers and/or across different divisions of the client company) to reduce freight rates, such as when multiple LTL shipments can be combined into a truckload move.
- **Continuous moves** - examining the freight flows of multiple shippers to allow carriers to pick up a new load within the area into which they just delivered, thereby improving carrier utilization and lowering freight rates for all customers.
- **Cross Docking** - routing items to their end destinations as soon as they are received in order to increase speed to market and lower storage and labor associated with traditional warehousing.
- **Pool Distribution** - shipping to numerous destinations within a region by using lower-cost truckload movements to feed regional pool points, then reloading goods onto local trucks for final delivery.
- **Zone-skipping for parcel freight** - moving a large volume of parcel shipments via TL or LTL to a local parcel hub for local delivery in order to minimize the high cost of long-distance parcel moves.

The example below demonstrates the benefits a manufacturing company achieved by implementing optimization tools. This midsize company netted annual freight savings of $8.2 million by shifting from LTL to TL shipments.

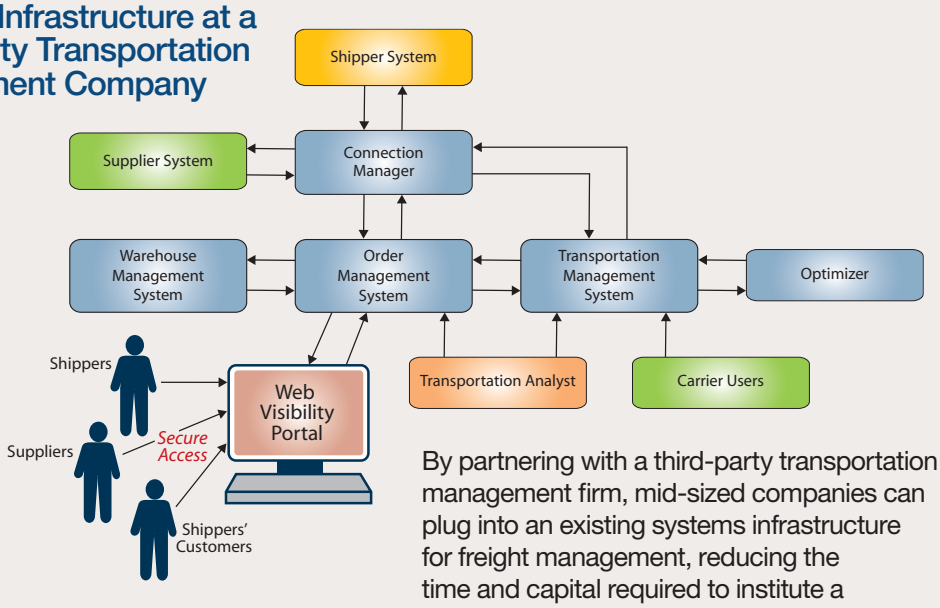
TRANSPORT COSTS MIX	Baseline ($000s)	After Optimization ($000s)	Savings ($000s)	Baseline (%)	After Optimization (%)	Change in Cost (%)
Outbound TL	$9,028	$15,849	($-6,821)	18.39%	38.79%	75.55%
Outbound LTL	13,330	1,221	12,109	27.16%	2.99%	(-90.84%)
Inbound TL	26,723	23,791	2,932	54.45%	58.22%	(-10.97%)
TOTAL	**$49,081**	**$40,861**	**$8,220**	**100.00%**	**100.00%**	**(-16.75%)**

Optimizing the Inbound Supply Chain? One of the best opportunities smaller manufacturers have to reduce overall supply chain costs lies in optimizing the inbound supply chain. Freight costs from suppliers are often pre-paid, so manufacturers cede control of inbound freight movements. Typical results:

- Suppliers ignore routing guide specs on shipment methods and specify higher cost modes
- Poor load planning at the shipping warehouse leads to more unconsolidated shipments
- Lack of visibility to inbound movements (via advance shipping notices) makes it difficult to plan production runs and inventory levels

By unbundling freight costs from the product cost manufacturers gain control of inbound freight movements and can lower freight costs, reduce inventory and improve production efficiency. Unlocking this opportunity requires a technology platform that enables collaboration with suppliers and carriers. Building this technology platform takes money and time. Partnering with a third party transportation management company - one with an in-place technology platform and proven optimization strategies - accelerates the time required to translate freight management investments into measurable returns.

Systems Infrastructure at a Third-Party Transportation Management Company



By partnering with a third-party transportation management firm, mid-sized companies can plug into an existing systems infrastructure for freight management, reducing the time and capital required to institute a more collaborative, systems-based freight management strategy.

Opportunity: Decision Support

Every company has questions about their business. Where should I locate my warehouses? What will it cost me to serve a new market? But the ERP systems that most of these companies use don't provide the granular detail necessary to aid decisions based on shipment- or product-level data. Users of third party services can access real-time shipment data to help with a range of business challenges. They can:

- Improve purchasing decisions by examining all volumes and lanes across the business, or group of businesses
- Improve service levels by closely monitoring carrier performance, such as on-time arrival and tender turndown rate
- Model the cost and service trade-offs of a one-, two- or three-warehouse distribution network
- Define cost to serve customers or groups of customers by market channel. Third party support services go well beyond day-to-day traffic management to support decisions with multi-million dollar implications.

Summary:
Shifting from a freight-centric to a supply chain-centric transportation strategy

As supply chains become increasingly global and complex, significant cost and service improvements are possible only with a high degree of data sharing and collaboration among manufacturers, suppliers and carriers. This requires companies to shift from a freight-centric to a supply chain-centric approach to transportation management. But building the systems and support infrastructure to capitalize on more collaborative approaches is difficult for smaller, resource-constrained companies.

Third party transportation management providers offer mid-sized companies the opportunity to quickly build more centralized, automated freight management operations. Leveraging a technology infrastructure that is already in place brings new levels of data sharing and visibility to businesses. Downstream visibility improves customer service and reduces customer service costs. Upstream visibility allows reductions to finished inventory, safety stock and work in process and faster allocation to order. A third party provider can help harness available freight optimization strategies and information mining opportunities to turn the freight management function into a competitive advantage.

About New Breed We're a third-party logistics services provider (3PL) that helps companies gain greater control of complex logistics operations. Our distribution center management and transportation services support the following solutions:

- Manufacturing Support
- Reverse Logistics and Repair
- Transportation Management
- Warehousing and Distribution
- Service Parts Logistic
- Materials Management and Procurement
- Supply Chain Consulting

NEW BREED
LOGISTICS

New Breed Logistics
4043 Piedmont Parkway, High Point, NC 27265
1.866.463.9273 I info@newbreed.com
www.newbreed.com

WPTM040809