

TMS for Logistics Service Providers: A Key Enabler for Penetrating the SMB Market

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Overview

Penetrating the mid-market is a key strategic objective for many Logistics Service Providers (LSPs). But in order to succeed and remain profitable, LSPs must overcome a critical challenge: reducing the time and costs associated with on-boarding and managing new clients.

It takes more than a Transportation Management System with the right set of capabilities for LSPs to succeed in the small and midsize business (SMB) market, but it's a critical starting point nonetheless.

Reducing Customer On-boarding Costs and Time

How do you plan to grow your business moving forward? I've been asking Logistics Service Providers (LSPs) this question for many years and their answers usually include one or all of the following strategies:

- **Expand globally.** In the past, European LSPs looked to North America for growth and vice versa. Today, all LSPs have their sights on Asia.
- **Introduce new services.** Warehousing firms have added transportation services; many freight forwarders now provide customs brokerage services, etc.
- **Target new industries.** LSPs that started out serving a niche market now look to leverage their capabilities in other industries with similar customer requirements.
- **Penetrate the small and midsize business (SMB) market.** The vast majority of companies that work with LSPs are Tier 1 enterprises (over \$1 billion in revenues). But this market segment is almost saturated, so LSPs need to penetrate the mid-market to sustain their growth.



There have been countless mergers and acquisitions in the LSP industry over the past decade, most of them in response to the first three strategies. But penetrating the small and midsize market has remained an elusive goal for most LSPs. Of course, there was no reason for LSPs to focus on this market segment years ago, when there were plenty of multi-year, multi-million dollar contracts available from large customers. But these large-scale opportunities are relatively few and far between these days. According to a leading LSP I interviewed last year, a growing number of the Requests for Proposals (RFPs) they receive today for transportation management services are smaller in scale and scope than in the past. In order to maintain their already slim profit margins, service providers have to offset these smaller revenue opportunities with lower operating costs, otherwise they cannot afford to penetrate the mid-market. In other words, LSPs have to significantly decrease the time and costs associated with on-boarding and maintaining new clients.

A key constraint in achieving this goal is the existing IT infrastructure of many LSPs. [As I've written about in the past](#), many service providers are looking to simplify, modernize, and standardize their IT systems because they recognize that their existing infrastructure (proprietary, outdated, non-scalable) is quickly becoming a constraint on growth. Based on ARC market studies and current trends, LSPs are forecasted to spend over \$900 million in enterprise and supply chain software solutions by 2010. However, this forecast assumes that software vendors will increase their commitment to the industry and add more LSP-specific functionality to their solutions. All signs indicate that this is happening, particularly in the Transportation Management Systems (TMS) market.

But what capabilities and attributes must a Transportation Management System (TMS) possess to help a Logistics Service Provider penetrate the SMB market? To answer this question, I recently interviewed Brad Young, Vice President of Network Solutions and Services at [Exel Transportation Services \(ETS\)](#), an operating unit of [Exel](#). ETS was recently reorganized into two businesses: the ETS Agency Network (focused on brokerage and multimodal services) and ETS Managed Transportation. Of all the services offered by LSPs, brokerage is perhaps the one that caters the most to small and midsized customers today, so my conversation with Young focused primarily on their brokerage business. Overall, the ETS Agency Network has over 100 offices and processes close to 700,000 shipments annually.

According to Young, having standard business processes powered by a sound and scalable IT infrastructure is the key to success in the SMB market. *“Creating standard processes across customers is not easy or completely possible,”* says Young, *“but you also don’t want 1,000 different set-ups.”* This implies that a TMS must not only serve as a platform for standardizing business processes, which is important for ETS because the TMS is the operating system used by its agent network, but also be highly configurable to support different customer requirements. In other words, standardization is what drives internal operational efficiencies, while configurability drives customer satisfaction.

Having good integration capabilities is another factor Young highlighted: *“Many customers don’t have EDI [Electronic Data Interchange], so you need to provide them with other ways to communicate electronically with you.”* The same is true with carriers. ETS has over 14,000 carriers in its network and many of them are not EDI-enabled. Therefore, a TMS must support multiple integration approaches, including the use of web portals, email, and the ability to easily import and export Microsoft Excel spreadsheets, which many SMB companies rely on.

Other important capabilities a “TMS for a Logistics Service Provider” must possess include:

- **Re-usability of customer set ups.** Many SMB customers, particularly in brokerage, conform to the 80/20 rule—i.e., 80 percent of their requirements are the same, while 20 percent are unique. Therefore, an LSP can greatly reduce the time and cost it takes to onboard a new client if it can easily copy and tweak an existing customer’s set up (e.g., carriers, rate structures, contract terms, etc.). The use of templates is another approach.
- **Support different contract terms.** Unlike shippers, LSPs have to manage both buy-side (accounts payable) and sell-side (accounts receivable) contracts. LSPs also use multiple pricing models, including cost-plus and gain sharing. Therefore, a TMS must support a variety of sell-side and buy-side contracts.
- **Support multiple transportation modes.** In response to globalization and changing supply chain networks, shippers have diversified their mode mix, which has forced LSPs to diversify too. In addition to truck-

load and less-than-truckload capabilities, a TMS must also support intermodal, rail, ocean, air, and parcel.

- **Visibility and optimization across clients.** An LSP with a holistic view of its clients and loads can achieve significant cost savings by optimizing across its entire network. While many LSPs have failed to fully implement this capability with their Tier 1 customers (for various reasons, including resistance from the customers themselves), it is nonetheless a critical factor for success in the SMB segment.
- **Access to Business Intelligence (BI) tools.** [BI is a hot topic](#) today in the software industry, including TMS. BI for logistics service providers is about empowering people, both internal employees and customers, to make smarter and faster business decisions by providing them with a more detailed, accurate, and timely understanding of their role in achieving the company's strategic, tactical, and operational goals.

Exel Transportation Services uses a TMS from [MercuryGate](#), a Software-as-a-Service (SaaS) solution provider with a strong presence in the LSP market. According to Young, ETS needed a TMS that not only met its functional requirements, but was also easy to use and configure. *"Because we execute truckload, less-than truckload, and intermodal shipments, we were looking for a single system that could support all of these modes,"* explains Young. When ETS started evaluating different solutions, there was no TMS available that fully met its requirements, but MercuryGate committed to customizing the solution to meet ETS' needs. *"Ongoing development and roll-out is very important for us because we're presented with new customer requirements and business needs all the time,"* says Young. *"Yearly or even quarterly releases are not enough; we need much faster innovation cycles."* And this is one of the key benefits the SaaS model provides, along with access to MercuryGate's IT resources.

Last Word

The LSP industry is strong and healthy, but there are some darkening clouds on the horizon. [Earlier this year I commented](#) on how a growing number of companies are bringing their transportation operations back in-house. At the moment, this "trend" is mostly scattered data points, but many LSPs I have spoken with are certainly taking notice. Not being able to profitably penetrate the SMB segment is another emerging concern for

LSPs, and it's allowing "non-traditional" competitors to enter the market. Just last week, for example, I was briefed by a consulting company that will soon offer transportation managed services (powered by a SaaS TMS) to its installed base of small shippers (companies with \$5 million to \$25 million in transportation spend). This is yet another data point validating [the trend I wrote about extensively last year](#), namely how the business models of software vendors, consulting firms, IT services companies, and Logistics Service Providers (LSPs) are converging. I call it the marriage of software with Knowledge Process Outsourcing (KPO). Brad Young and the folks at ETS certainly recognize this trend and the opportunity it creates for them. "An LSP has to show ongoing productivity and value to clients," says Young, and he believes they can deliver this to SMB clients by providing them with (among other things) greater business intelligence powered by technology. Of course, it takes more than a TMS with the right set of capabilities for LSPs to succeed in the SMB segment, but it's a critical starting point nonetheless.

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