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3PL Enhances Transportation, Grows Both Service and Volume Under Contract

Aberdeen researched 181 logistics professionals in July 2010 through a detailed benchmark study titled *International Transportation: Optimize Cost and Service in a Global Market*. This Analyst Insight looks specifically into the challenges faced by 3PLs with respect to consolidation of trading partners, renegotiating the cost service contracts with carriers, customers, suppliers and trading partners. Please note that though 3PLs may provide technology solutions of their own, in this Analyst Insight they are looked at as an end user of transportation solutions. A specific case study of a 3PL end user - ReTrans - is presented in this document.

Business Context

As the world of business commerce grows to encompass more customers in more countries, the width and breadth of the average company's supply network has grown rapidly. This growth brings greater complexity and increased transportation costs. In fact, a recent survey of 181 logistics professionals (*International Transportation: Optimize Cost and Service in a Global Market*; July 2010) revealed that the increasing cost and service impact of transportation on overall supply chain performance (56%) was the top ranked business pressure. While the cost of transportation continues to rise, customer service demands have not waned. If anything, customers are more demanding today than ever before. Thirty-four percent (34%) of survey respondents indicated that *increased customer service demands (shorter cycle times and/or high customer expectation in need on-time delivery performance)* was their second greatest business pressure.

When combined, these two pressures have driven supply chain professionals towards certain strategic actions for improving supply chain efficiency, companies have focused on increasing their transportation and logistics efficiency to reduce logistics cost. In fact, a full 52% of survey respondents indicated that *consolidating the number of trading partners and renegotiating the cost service contracts with carriers, 3PLs, suppliers, and trading partners* were the top strategic actions taken. While companies are looking to streamline operations by minimizing contract costs and reducing the overall number of trading partners, companies are also looking to increase the interaction and interconnectivity between themselves and their trading partners. Overall 37% of survey respondents indicated a desire to *increase B2B / EDI data exchange and electronic connectivity with partners (carriers, suppliers, and customers)* as one of their top strategic actions.

Analyst Insight

Aberdeen's Insights provide the analyst perspective of the research as drawn from an aggregated view of the research surveys, interviews, and data analysis

Performance Metrics Transportation n=181 July 2010

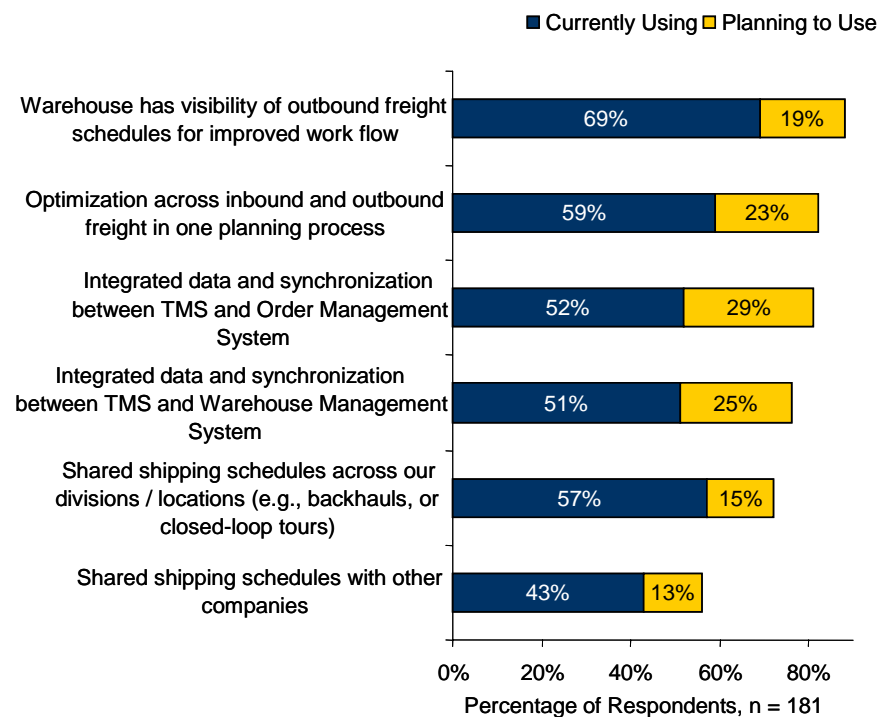
In our July 2010 study Aberdeen used three key performance criteria across global international transportation to distinguish the Best-in-Class from Industry Average and Laggard organizations

- ✓ **Spend ratio**, measured as total transportation costs divided by sales
- ✓ **Spending trend**, measured as the percentage of total transportation spend vs. the prior year per unit handled
- ✓ **Shipment integrity**, measured as the percentage of transportation shipments that were on-time and for which all items were complete

Transportation Management Systems

Many companies, like ReTrans, have turned to integrated TMS systems to both increase data exchange and manage the massive amounts of transactional and operational data from daily operations. On a variety of data visibility/synchronization/integration levels between 43% and 69% of the survey respondents indicate that they are currently using and relying on technology (Figure 1). The desire for Transportation Management Systems (TMS), particularly SaaS or on-demand solutions, is directly related to this growing need among companies to increase their overall visibility across these areas.

Figure 1: Key Software Enablers for Access and Visibility



Source: Aberdeen Group: July 2010

"We really had no centralized visibility to our transportation spend. This was the first step we needed to make in order to start the process of bringing our spend under control. Without the visibility, everything else we did would have been guess work."

~ Chris Cavin, Director of Transportation, RockTenn

Look at the key features these shippers are adopting as found in the July study (Figure 1). Several of these key enablers revolve around visibility to both the inbound and outbound sides concurrently, shared access to data, both internally and externally, and integration.

Survey respondents indicated that better visibility to shipments and cost were the two benefits from using a transportation management system. In today's increasingly complex global market, companies without a TMS system are at a significant disadvantage compared to those with a fully integrated system largely due to the global reach of companies and the critical link that transportation plays in executing and tracking product movements. Let's take a look at how ReTrans has addressed some of these issues.

Case Study: ReTrans Has Grown Service and Volume Under Contract

ReTrans Inc., headquartered in Memphis, Tennessee, is a full-service transportation and logistics management company (LSP). The company operates as a third-party logistics provider (3PL) and executes transportation services for a variety of clients and ships a wide range of products; everything from food confections to building materials. In 2009, this 3PL had transportation spend of over \$200 million dollars. Through a network of thousands of proven carriers, ReTrans offers comprehensive, yet customized, solutions for transporting goods. Today, the company operates more than 30 plus agent offices in the U.S. and Canada. Led by experienced professionals this 3PL performs services including everything from load planning and scheduling to shipping and billing and performance reporting.

ReTrans services companies of all sizes, and is capable of handling all modes of transportation. ReTrans has a network that includes about 7,500 carriers for truckload (the top 100 truck load carriers represent about 80% the load volume), a base of over 25 LTL carriers, and that handles domestic and international parcel (Fedex, UPS). Additionally the company coordinates the inbound flow of ocean containers and can transition to rail or intermodal.

From a processing/fulfillment standpoint they're able to handle warehousing, cross docking and break-bulk and are equipped to handle temperature controlled as well as hazardous materials.

In response to the needs of their clients (for increased access and visibility to transportation data) ReTrans realized the need to offer a variety of solutions for their customers, including:

- Smaller companies, as well as large, needed to have more agile and constant access to transportation and shipment events
- The system had to provide bi-directional and synchronized information on status, service and cost to multiple parties- customers, carriers and suppliers- all tailored to their routes and rates
- The accounting systems had to both collect and settle costs and margins fairly against each party sharing a truckload and to each party's contract requirements

In general, the company wanted to be better positioned to support each party's ability to tailor and configure the system and, across all companies, to offer the economies of scale the 3PL's expansive pooled-carrier transportation network can support.

To address the overall market opportunity, ReTrans was looking to serve as single source for logistics services from small tactical shipping services to larger engagements like complete logistics management and they needed a powerful TMS system. After a rigorous selection process, ReTrans partnered with MercuryGate, a best-of-breed transportation management

ReTrans Operating Scope

- ✓ Dry Van
- ✓ Flatbed
- ✓ Specialized Equipment (Oversized/Overweight)
- ✓ Multi-Stop
- ✓ Hazardous Loads
- ✓ Dedicated
- ✓ Consolidations
- ✓ Temperature Controlled
- ✓ Long-haul, Regional, and Short-haul
- ✓ Intermodal
- ✓ Direct Rail Contracts

"With this new system, we now are able to provide full visibility, handle a lot more capacity, and we are able to stay efficient and cost effective.

As a 3PL, it is very important that we be able to isolate costs and margins across all of our customers, carriers, and trading partners accurately. The new system is extremely flexible in this regard - everything from rates to margins and actual costs can be aggregated and tracked - even when multiple parties are sharing freight on the same load."

~ Ray Scher, Vice President of Logistics, ReTrans

software (TMS) provider, and implemented a full service software package that greatly enhanced their ability to monitor and manage large volumes business across all their modes domestically and internationally. "With this new system, we now are able to provide full visibility, handle a lot more capacity, and we are able to stay efficient and cost effective," said Ray Scher, the Vice President of Logistics.

"Given the scale of our operations and the varying forms in which we interface with our customers the new system has proven to be extremely flexible. The operating models and the usage of our new system features vary by company. No one size fits all, says Scher. "We have been using this system since December of 2008 and we are very much customized to the client's needs – this gives us a competitive advantage." he goes on to say.

While numerous configurations are possible let's look at a few of the most common:

- **Solution technique for large companies.** Using this new system, ReTrans was able to move away from older tracking methods on the legacy system, which were severely limiting its visibility, analytical, and customer service capabilities. The new system allows for more flexibility in handling clients of different size and maturity levels. "Large companies are not required to use every aspect or feature in our system, they have their own systems and can use the various components of access, execution, or optimization from our SaaS platform as they see fit", Scher explained.
- **Solution technique for smaller companies.** "Some of the smaller clients have no internal capacity (or want to use our system without having the burden of hosting a solution and maintaining the system). Either way, we are now able to handle and scale down for these clients and remain both competitive and profitable," explained the Vice President.

Beyond tailoring the system and our services for company size, ReTrans also offers several different operating models or formats.

Freight Audit/payment and Spend Management Model

If the customer chooses they can limit services on the new system to freight audit and payment. In this model their actual freight invoices and shipment actual are scanned into the system and/or transferred electronically onto the system. Using a series of customer rate tables, full or partial auditing can provide input back to the company regarding discrepancies. Companies can rely on the 3PL or their own staffs to perform audit analysis on the new SaaS platform. Companies that use this model have the capability to send all of their transactional data and this data can also serve as the foundation for transportation spend management. It should be noted that companies exhibiting Best-in-Class status are three times as likely as Laggards to leverage transportation spend data in periodic reassessments of their transportation process and cost.

Bill of Lading and Track and Trace with SaaS Portal

Standard transportation EDI transaction sets are one of the more traditional ways companies use to transfer shipment details into a TMS for optimization, carrier selection, and track and trace. In addition to offering the full range of EDI transaction sets, the new TMS system offers several additional methods in which shipments or orders can be submitted. Customers, carriers and suppliers can use a combination of EDI messages, web portals or even emails to share information and submit and/or respond to the transactions associated with their piece of the transportation process.

Once routing, rating, and optimization are complete and loads are tendered to carriers (and exist on the new SaaS platform) each player in the system can access all the information pertinent to their piece of the transportation process when it comes to track and trace.

The system is very flexible and allows for customers, carriers, suppliers or other trading partners to access complete or limited amounts of data depending on their role and access level. "This is particularly important for our clients who have large numbers of suppliers without EDI capabilities. They are able to log on to the system over the Internet and access the system through a computer or a variety of devices like cell phones," says Scher.

Full Routing and Assessment Model

Under this model, a customer is offered a full-blown transportation system (complete with ReTrans management expertise if they choose). This includes order-to-settlement whereby customer approved standard routing guides and specific rate tables are configured into the system following templates that the customer can select. Once the system and routing guide information is completed, the customer, primarily through standard EDI transaction sets, transmits their orders on a periodic basis down to and including SKU and line item. The orders are submitted to the rating and carrier assignment engine and subject to the constraints configured by the client and are allocated to routes, optimized and/or consolidated.

"Once each load and route is planned the system can communicate back to the customer's in-house systems or TMS while at the same time we continue to track and trace the shipment on our easily accessible SaaS platform. In our old system we had the capability to receive orders electronically. In these instances all orders come in via EDI, under the new TMS system we allow full EDI plus other options - for perhaps smaller suppliers who may be limited to email. We have customers that access and do a full route design and assessment using the system themselves, while other customers elect carrier management, freight audit, and administrative efficiencies conducted with our people and systems," Scher goes on to say.

Best-in-Class Results July 2010 n=181

- √ **8.71%** transportation spend reduction over last year, compared to a 5.03% increase for Laggards
- √ **97.2%** of deliveries are on-time and complete versus 81% for Laggards
- √ **89%** reduced their transportation spend year-over-year, versus 51% of all others

Building Shipper Relationships

"We are using the system trademarked optimizer to do what-if and dynamic load planning optimization analysis. We leverage the tools during initial or periodic assessment to do the route designs and it's really good for high volumes. It lets you stay efficient, establish basic network and shipment assignments, and manage by exceptions," says Scher.

The new system not only led to internal improvements, it allowed ReTrans to compete for larger accounts and compete with bigger 3PLs on a cost and services basis. "We recently landed a sizeable, national account that operates two large production facilities. We couldn't have landed this account without the ability to analyze current operations and compare to baseline; and simulate and tweak variables. This system was our ticket to the game – under our old system we could not have conducted the rigorous transportation consolidation analysis the client required. Now that we are in the game; our skilled labor force and years of experience can really shine through. For us, not having a system like this in years past has been a large barrier of entry. In the end, the new system streamlines our operations and allows us to highlight our real competitive advantage: our people," the Vice President goes on to say.

Using the optimizer tool is simple and very flexible and can accommodate large volumes and concurrently evaluate multiple options to yield the optimal combination of consolidated loads, continuous moves, pooled shipments, and backhauls. It can evaluate mode shifts and multi-modal movements. "Without this tool it is unlikely that we would have landed new customers [like the one indicated above] or that we would be as well-positioned in proposing network restructures for our existing customers," Scher explained.

Multi-party and Multi-level Accounting System

"As a 3PL, it is very important that we be able to isolate costs and margins across all of our customers, carriers, and trading partners accurately. The new system is extremely flexible in this regard - everything from rates to margins and actual costs can be aggregated and tracked - even when multiple parties are sharing freight on the same load," explains Scher.

There are a variety of tools and reports that the company uses within the system to make sure that they are properly costing and allocating the costs to each party involved. Some of the key components for ReTrans include:

- Both carrier and client rates are visible to authorized users
- Carriers invoice thru system and customer invoice are generated by system
- Load level and margin level reporting and analysis
- General ledger code and accessorial charge management for and across parties

Best-in-Class Results vs. Other Companies:

- √ 1.74-times as likely to measure suppliers / carriers / 3PLs freight management performance monthly or more often
- √ 1.36-times as likely to measure company's own freight management performance monthly or more often

- Leveraging transportation by seeing all customer shipments in a single view
- Cost allocations, including the ability to monitor and measure profitability of each shipment even on multi-party continuous move
- Exception reports and alerts for unprofitable loads
- Allocation by item, weight, mileage, etc.

"Since our company has multiple business units and 30 plus agent offices that ship freight, we consolidate shipments and allocate transportation costs to each division or subsidiary according to their exact usage. This is also an important component of making sure we stay streamlined and financially viable at a branch and agent level," Scher explained.

Recommendations and Takeaways

As our Aberdeen studies indicate, visibility and control are central concerns for the majority of shippers. In the past where there were visibility or control barriers in outsourcing to a third party that climate is beginning to change. As companies evaluate their internal or 3PL transportation solution there are three key actions common to all. They should:

1. **Collaborate with internal and external groups to gain visibility and share data on the inbound and outbound supply chain.** Only 38% of Laggards have automated event management / alerts and, hence, close to 60% of them are running blind. As this document illustrates, new SaaS platforms can extend controlled access via the web or even the cell phone.
2. **Share data for pooled/consolidated shipments across companies but still possess the capability to accurately track and post cost for each party in the multi-party transaction.** A recent finding from our cost-to-serve study indicated that over 56% of companies need to capture these costs at the item as well as shipment level.
3. **Employ near real-time dynamic optimization to enhance cost/service.** Between 41% to 50% of Best-in-Class companies have attributed benefits to visibility (shipment status and landed cost) within their supply chains, and about the same percent have achieved reduced freight costs through improved shipment optimization and shipment consolidations. Visibility is not enough - make sure you can perform the numerous route and rate tradeoffs and dynamic optimization to deliver superior results.

ReTrans is finding that by leveraging the extended TMS capabilities offered by an integrated SaaS transportation solution they can both grow and sustain the business during the current challenging economic climate.

Retaining detailed control over multi-party transportation costs while adding flexibility, visibility, and optimization has become a key strategic

advantage that the decision to move to the new SaaS integrated solution offers to ReTrans and their customers.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research	
<u>International Transportation: Optimize Cost and Service in a Global Market</u> ; July 2010 <u>Transportation Procurement and Payment: Gain Control over Spend</u> , February 2010. <u>Global Trade Compliance Priorities in 2008 : How Best-in-Class Companies Avoid Risks and Reduce Costs</u> , March 2008 <u>Tending the Fleet: Paving New Roads with Effective Fleet Management</u> , September 2008	<u>No Excuses! Why Optimizing Transportation Management is Within the Reach of Every Company</u> , July 2008 <u>Achieving Closed-Loop Transportation Spend Management</u> , January 2008 <u>The International Transportation Management Benchmark Report</u> , October 2007 <u>Integrated Transportation Management—How Best-in-Class Companies View the World Differently</u> , June 2007
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