Carrier Selection and Management

Overview

Prior to the deregulation of the trucking industry in the 1980s, a carrier's customer base existed primarily as a result of the carrier account representative's personal relationship with the customer. Due to ICC government regulation and price controls, these personal relationships were the common thread in the industry bonding the carrier with their customers. As the deregulated environment flourished, several key decision-making factors for the shippers emerged to the forefront: price, on-time service and geographical coverage.

As a result of this shift in emphasis on price and service, it is imperative for shippers today to focus on the proper selection and monitoring of their carriers. Companies must obtain the maximum transportation value for their transportation dollar. As the carrier's fuel cost continues to escalate, this inflated fuel cost is being passed on to the customer via the fuel surcharge. In addition, recent annual general rate increases to cover increased insurance, labor and equipment costs have averaged 4.6 percent to 5.6 percent.

Your carrier's service performance and transportation cost ripples down throughout your entire organization and affects both internal and external customers. If the raw materials or parts do not arrive on time, the production line could be shutdown. The finished product must be on the retail shelf for purchase or in the customer's plant or warehouse for distribution to complete the sale. A reasonable transportation cost (inbound and outbound) of finished product is imperative to compete in today's price aggressive marketplace. Is your company securing the best value for their transportation dollar?

Methodology

An expansion of the three primary evaluation criteria or standards mentioned previously is vital to the proper selection and on-going management of your carriers. By adhering to the following decision making processes or methods, proper carrier selection and management can be achieved.

1. Does the carrier have service centers in your customer or vendor areas and do they provide direct-line service to these points with competitive service standards? Obtain a copy of the carrier's load plan to determine their direct loaders. If the carrier's local terminal is a breakbulk facility, then this terminal would realize freight handling and linehaul cost efficiencies which could be passed on in their pricing. Truckload carriers which have a driver base in your area will tend to provide better pricing per mile since they will avoid empty miles to point of pickup and may quote premium pricing on inbound movements to return their drivers back to their home terminal.

2. Review your carrier's on-time service performance against their service standards on a monthly basis to ensure compliance. Watch out for, or be attentive to repetitive service failures by lane or state.

3. Compare the carrier's base rate before discount on repetitive or common shipping lanes to determine the base-rate cost per cwt, if your pricing is not based on a single base-rate tariff. A carrier with a higher discount percentage may, in fact, be more costly. A single common base-rate allows for simplified pricing comparisons and guards against across the board general rate increases.

4. Obtain regular feedback from dock or shipping personnel on their interface with the carrier's driver. Is the driver on-time for delivery appointments and do they make the pickup prior to closing? Does the driver properly handle your freight and is the carrier's equipment in safe working order, such as no holes in the floor or roof, and clean?

5. Review the carrier's invoices internally or externally by utilizing an audit firm to ensure that all discounts are applied in compliance with your tariff. Look for waived accessorial charges which may have been improperly applied. As carriers reweigh and inspection programs intensify, verifying the validity of added charges due to weight and classification changes is crucial. In some cases, the shipment may have been tendered to the carrier as loose cartons and the carrier then loaded on pallets for ease of handling which would result in the added weight of the pallets.

Conclusions

Utilizing thoughtful and analytical analysis before and after carrier selection is imperative to ensure that your transportation vendors will provide value to both internal and external customers. Holding your carriers accountable on both a daily and monthly basis will pay dividends in both cost control and service performance. As the steps detailed above indicate, proper monitoring is the key. In far too many cases, transportation cost and carrier compliance is not given the level of attention which is required to maintain cost and timely service in today's transportation environment.

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