

Create a Roadmap for Progress

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How to begin an assessment of transportation performance at the strategic, tactical and transactional level

By Pete Ward

CEOs haven't shown this much interest in transportation since trucking de-regulation in the 1980s," said one long-time transportation industry observer not too long ago. Rising fuel prices, carrier capacity problems and customer demands for 100% on-time service, have made it necessary for companies to re-assess their transportation performance at the strategic, tactical, and transactional levels.

Information gained through a thorough assessment process helps identify gaps between current performance and "world-class" performance. Such assessments can close the gaps, develop a roadmap for improvement initiatives and help build the business case for any needed investments.

The data and detail needed for an effective transportation assessment has grown. In the last five years there have been remarkable changes in transportation information technology, people skills and the speed of transportation transactions. Improvements in telecommunications and the Internet only accelerate the need to review transportation performance just to "stay even," never mind the possibility--dear to the heart of every CEO--of using transportation excellence to create a sustainable competitive advantage in the marketplace.

The recent attention to transportation by CEOs is driven by economics. For companies where transportation has been considered a "sunk cost," those costs have risen by 20 to 30% in the last 18 months because of rising rates, fuel surcharges and capacity constraints. A company-wide \$20 million freight bill is now \$24 to \$25 million. Since transportation costs, especially among industrial manufacturers and distributors, are one of the top five expense items (after payroll and raw materials), the latest jump in transportation expenditures is causing many companies to re-think their transportation program and to assess its performance.

Where to begin

Assessing transportation performance begins with the realization that the transportation function needs an assessment process that warrants investment and senior management attention, particularly for larger firms with transportation activity at multiple sites around the globe. The executive who sponsors the transportation assessment must be committed to the possibility that assessing transportation performance leads to:

- Better control of transportation performance
- Identifying and capturing scale economies in transportation activity
- Better control (and possible reduction) in overall transportation costs, across the company.

The second step in a transportation assessment is to determine the scope of the assessment. For those firms where there is no recent history of assessing transportation performance at any level, the first look ought to be global. Managers at all levels should be asked how operations currently perform against key rules for improving transportation performance. These rules include being committed to a 100% on-time standard, having planned dates and times for pickup and delivery that are communicated to suppliers and customers, and advance communication of service needs with carriers.

As the results of this initial high-level questionnaire are compiled it is important to compare local responses to those at headquarters. Not surprisingly, local transportation staff tend to rate their performance higher than headquarters staff. This leads to a frequent finding of the initial assessment: Control of local transportation activity and spending may be effective, but tight local control often results in lost scale economies across the company. The transportation bill across the company is higher because local operations managers cannot--and occasionally will not--see the possible scale economies to be gained by collaboration.

As part of the initial assessment, it is necessary to measure transportation activity at each operating location. This too ought to be accomplished using a relatively simple information-gathering tool, a sample of which is shown in the figure (below).

Transportation Management

Facility Name: _____ Location: (City, State) _____

Products: _____

How many people in the Transportation department?	Managers	Supv	Drivers	Clerks	Others

Detailed Transportation Expenses (\$000's)				
	2004		2005	
	Inbound	OutBound	Inbound	OutBound
Transportation Department Admin Expenses				
Private Fleet Expense				
Outside Motor Carriers-TruckLoad				
Outside Motor Carriers - LTL				

Trading Partners

Top 10 Inbound Lanes via Transport Mode: TL, LTL, Rail, Intermodal, Air, Ocean (please show dominant mode)

From (Supplier Name)	Location: (City, State)	Mode	Controlled by You? (Y/N)	No. of Orders	Major Carrier

Trading Partners

Top 10 Outbound Lanes via Transport Mode: TL, LTL, Rail, Intermodal, Air, Ocean (please show dominant mode)

To (Customer Name)	Location: (City, State)	Mode	Controlled by You? (Y/N)	No. of Orders	Major Carrier

Transportation Management Questionnaire

Are INBOUND orders consolidated with orders from other company facilities? Yes No

If yes, at what location: _____

If yes, what percent of the orders are cross-docked (i.e. shipped out the same day/shift as received) _____ %

What percentage of transportation shipments arrive at their destination on the originally requested date?
 Inbound = % Outbound = %

Document	Manual or Information System (specify)	Transactions			
		per Day Avg.	EDI	Internet	
Bills-of-Lading			Yes No	Yes No	
Carrier Labels			Yes No	Yes No	

In the last 60 days, how many times has this facility paid for expedited services (e.g. Fedex Expedited, etc.) _____ times

Is there a Core Carrier program? Yes <input type="checkbox"/> No <input type="checkbox"/>	Is Carrier Performance measured and documented? Yes <input type="checkbox"/> No <input type="checkbox"/>
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How are freight payments and audits handled? _____

Proficient transportation staffers ought to be able to complete a questionnaire such as this within a day, if not hours. A low or slow response rate is an indicator of problems in managing the transportation function.

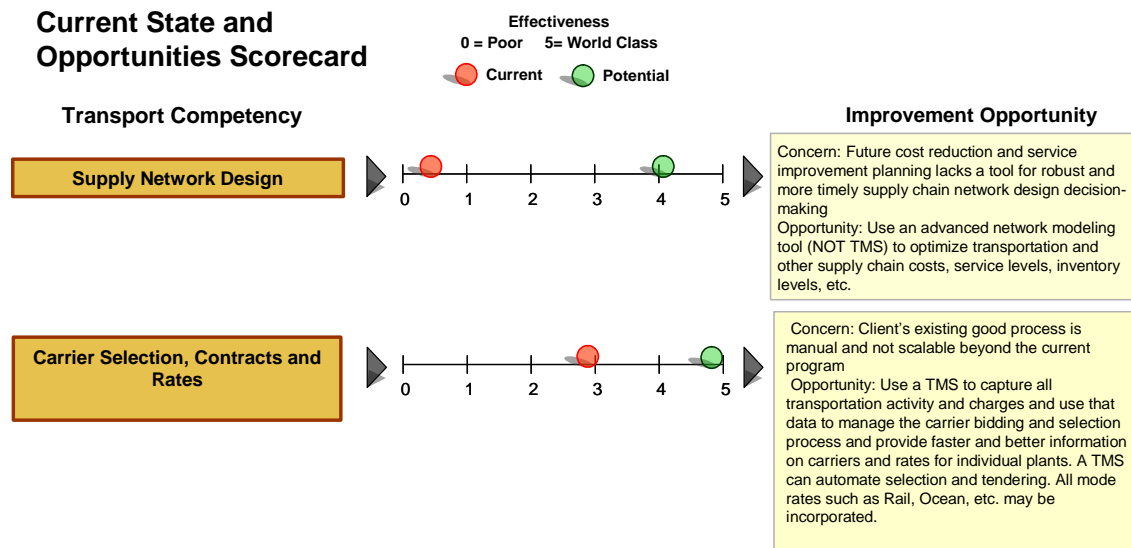
These initial assessments will guide the executive sponsor to areas that need the most attention, setting the stage for a more in-depth analysis of facilities where control over transportation activity and costs are most lacking. As these surveys are reviewed, the executive sponsor needs to determine who among his

or her staff has the potential to conduct more in-depth assessments and to drive the results of the assessment through to implementation.

For a more in-depth look at the locations or business units, there needs to be a set of standards by which local activity can be measured. These standards need to be objective and quantifiable, as the results will inevitably be challenged by local P&L managers or the senior executive team.

One technique is to establish a set of “best practices” for the company for each of the applicable transportation functions and compare each unit to those best practices. It is equally important to identify inhibitors to best practices.

Throughout the assessment process, it is important to take the time to impart both education and vision. Describing the possibilities of the particular competency and how those possibilities might be relevant to each business unit being assessed is an important task for the assessment team. A graphic portrayal of current status and future state helps the assessment team describe the “gap” and the commentary helps describe the nuances of that gap, as shown in the figure.



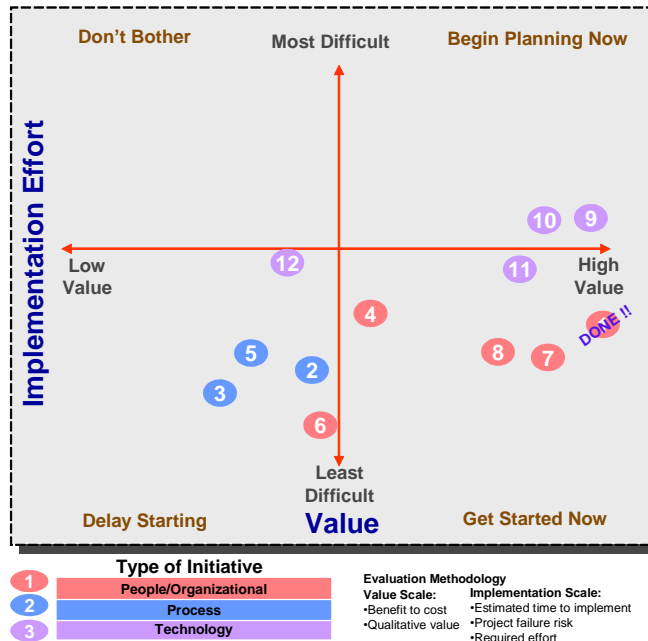
In this example of a detailed transportation assessment, the unit being reviewed has a considerable opportunity in “supply network design.” “Carrier selection” is effective, but perhaps needs a better tool, such as a transportation management system (TMS) to reach its full potential.

A graphic depiction of the gap between current state and future need becomes one of the building blocks in the assessment process. When each of the competencies at each of the target entities within the company has been assessed, the assessment team then needs to prioritize the needs of the entire firm. The prioritization effort needs to consider both potential benefit/payback and potential cost (in terms of time and dollars). This can be shown graphically as well and becomes the beginning point for both a roadmap for the improvements identified in the assessment and for building a more detailed financial business case.

Transportation Improvement Priorities – Matrix Format

The assessment uncovered multiple high value, low difficulty initiatives which could demonstrate the early value of decisive action by the newly-chartered company-wide transportation and trade function. We recommend you start these immediately; these will help support efforts to fund the higher cost projects that are critical to future success

Priority	Recommendation
1 DONE !!	Company-wide transportation & trade function
2	Standard transportation contract
3	Shipper's Bill of Lading
4	Revise driver pay structure
5	Review inbound transportation allowances
6	Use outside help to review tractor and trailer leases
7	Institute a Key performance Indicators (KPI) program
8	Transportation director's direct reports to develop a collateral duty competency
9	Implement a Transportation Management System with Event Management
10	Implement a Global Trade Management System integrated with the TMS
11	Implement a Network Modeling and Inventory Optimization tool
12	Install On-Board Data Collection System to monitor driver activity



This graphical presentation of the “gap analysis” shows how recommendations are spread across the broadly defined initiatives focused on people, process and technology. While technology based initiatives tend to have larger costs (and larger benefits), other relatively low cost initiatives can be readily implemented.

Rough estimates of costs and benefits need to be converted into a roadmap for implementing the initiatives, and a detailed business case for larger, more expensive initiatives. The development of the Roadmap requires consultation outside the transportation function. For example, an initiative to revise driver pay structure would have to include participation and agreement from human resources, finance, payroll, and, for companies with a union driver force, the company attorney or labor negotiator. Early consultation, buy-in and agreement among all of these functions are critical success factors.

When benefits and costs have been calculated, the business case can be presented to senior management for review and approval. It is important to be explicit about the assumptions used to calculate costs and benefits. The remaining task is to convey graphically the expected payback and if required calculate the internal rate of return for the project.

The last step for the assessment team is to create--if one does not already exist--a process for measuring the performance of the transportation function across the company. This means that key performance indicators (KPIs) need to be developed for each level on the organization. Each KPI has to have a data source and an agreed upon definition. Absent an advanced TMS collecting data, attention must be paid to the difficulty of collecting the data needed for metric calculation. Over time these KPIs become the benchmark for measuring the impact of the initiatives and reporting back to senior management on progress towards achieving the stated goals the transportation function across the entire company at the strategic, tactical and transactional levels.

About the Author

Pete Ward is a senior manager with Hitachi Consulting (www.hitachiconsulting.com). He has more than 20 years experience in directing supply chain performance improvement programs for manufacturers, distributors and retailers.