



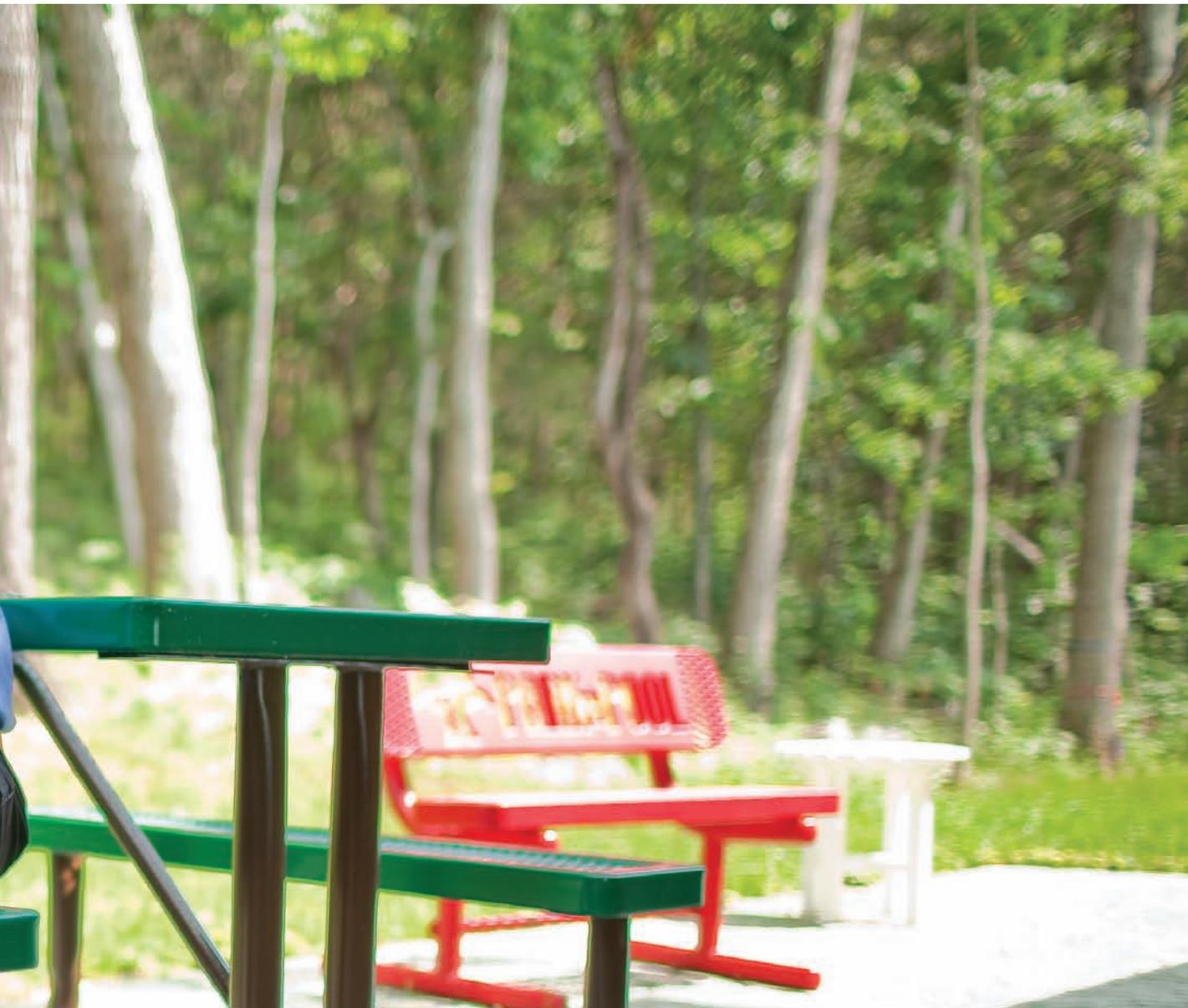
LM EXCLUSIVE

2011 Best Practices Award ParknPool's LTL cost plunge

Before developing its web-based carrier rating tool, this niche vendor of outdoor furniture was spending 17 percent of its sales on transportation. This year, those costs are going to be about 5 percent of sales—a turnaround that earned the company our 2011 Best Practices Award.

BY JOHN D. SCHULZ, CONTRIBUTING EDITOR

Jason O'Mahony, logistics and operation manager, ParknPool



Following the downturn of 2007 through 2009, less-than-truckload (LTL) carriers are making up for lost ground wherever they can with steadily higher rate increases. With driver pay and fuel costs soaring, and the cost of equipment rising at the same time, few can blame the LTLs for trying to compensate through higher rates.

So what's a logistics manager to do?

Maybe a few savvy shippers can tear a page out of the transportation-planning book of ParknPool Corp., an online, business-to-business vendor of outdoor furniture that spends 90 percent of its transportation budget on LTL.

The Lexington, Va.-based company achieved

better control over its LTL costs through the development of a dynamic carrier rating tool that cost very little to build, but is largely responsible for ParknPool having achieved significant savings in its transportation budget.

How significant? Before starting this system two years ago, ParknPool was spending 17 percent of its sales on transportation. This year, those costs are going to be about 5 percent of sales—a mark that earned the company *Logistics Management's* 2011 Best Practices Award.

How did ParknPool achieve those impressive savings and win this year's honor? Let's take a dive into how ParknPool took control of its LTL costs and executed this impressive logistics turnaround.

TOE IN WATER

ParknPool's strength is as a sales, marketing, and distribution company that sells mostly to government installations and large corporations. Less than 5 percent of its sales goes directly to the public. It is lean—just 23 employees—with a simple B2B plan that keeps costs as low as possible.

"We focus on marketing and distribution, those are our core competencies," says the company's logistics and operation manager and the force behind the recent change, Jason O'Mahony. A former sales executive with a background in the trucking industry, O'Mahony is responsible for logistics planning from more than 50 of ParknPool's suppliers.

When he arrived at the company four years ago after working at Henderson Transportation Co., which operates a fleet of thousands of school buses on Long Island, O'Mahony was struck by one line on ParknPool's balance sheet—transportation spend was 17 percent of total sales.

"That's awful," says O'Mahony. "Up until then we worked with our suppliers who simply quoted us shipping and handling costs and we passed that along to our clients. That hurt us when we got into competitive pricing situations, but we had no other options on transportation. Whenever there was a rate increase, we just had to absorb the hit."

This was in 2008. The following year, O'Mahony began plans to create an internal logistics unit within ParknPool.

The goal was to create a department that could negotiate directly with carriers on rates, take advantage of the competitive situation in the LTL industry, and ultimately drive down rates.

However, he immediately faced two obstacles. First, individual rate negotiations with LTL carriers were not easy. "It's fraught with difficulty," says O'Mahony. "We had some success, but we found that shippers that were much, much larger than us were not able to secure competitive rates either."

The second obstacle was dealing with ParknPool's suppliers and informing them that it no longer would be accepting transportation costs as part of its overall negotiations—that, says O'Mahony, may have been the toughest step.

"We're in a small, niche market," he says. "All our suppliers and competitors are like a small family, and we all know what's going on. But our suppliers had been using transportation as a profit center, so they certainly weren't comfortable with what we were proposing. But we were dead set on it, and we stuck to our guns."

The process of dealing with suppliers was not so much painful as painstaking, O'Mahony says. That's because he wanted to reassure those suppliers that nothing much had changed except the shipping and logistics end of their relationship with ParknPool. He contacted each one individually to ease their fears. That began at the end of 2008, but didn't reach full implementation until

late 2009 and early 2010.

The suppliers all eventually understood. In turn, carriers began to recognize there was a new relationship with ParknPool as well. Rates, suddenly, were highly negotiable. The heart of the program was the development of a web-based rating tool that's able to rate each shipment on a case-by-case basis to select the best cost from a variety of LTL carriers. This has helped insulate ParknPool from damaging price increases and has caused its carriers to enter a near constant state of bidding to attempt to get a leg up on the competition.

Development of the rating tool was accomplished by ParknPool's Marc Viret, the company's resident programmer. "With Marc, we have a real asset in house," says O'Mahony. "He was able to code a complicated piece of software that would interact with the different systems the carriers use and translate the data into simple terms any working person can readily understand."

For example, if one carrier chooses to increase rates dramatically on a certain lane, ParknPool has the ability with a few keystrokes to reduce its volume with that carrier and shift freight to carriers that might have excess capacity on that lane and is more competitively priced.

According to O'Mahony, timing of the new program was essential as well. When it began in 2009, there was excess capacity in the LTL industry, but that certainly didn't last long. In 2010,

ParknPool: Shipper as 3PL

When word got out that ParknPool was taking its logistics operation in house and negotiating rates individually with carriers, several of its competitors in the recreational furniture business soon caught wind of it.

"Word got out pretty quick when we hit the ground running," recalls Jason O'Mahony, the ParknPool manager charged with overseeing logistics. "Our suppliers were calling us. All our cards were on the table. We had some information on how much they were paying for freight and how much they were making off us."

As a result, ParknPool's logistics

program has been used as the foundation for a new company, Centurion Logistics. ParknPool registered Centurion at the Department of Transportation with its own motor carrier operating authority, and it's currently fine-tuning its transportation management system (TMS) to handle other companies' business.

In addition to having the ability to build shipments and create bills of lading, Centurion can provide updates to any shipment, track and trace, and create Electronic Data Interchange (EDI) connections to carriers for automatic invoicing.

"It's going to allow some of our suppliers to access it, similar to a 3PL," says O'Mahony. "We're not looking to pick up unfair margins, but if there are companies that want to take advantage of it, maybe we can all achieve reduced rates."

O'Mahony made clear Centurion doesn't exist to make money, although it will receive a small percentage of cost of each shipment tendered by other shippers. Costs are minimal because the system is totally automated, with just one employee, former ParknPool executive George Barrett.

—John D. Schulz, Contributing Editor

ParknPool quickly discovered that carriers were looking to take healthy rate increases.

"We saw that FedEx and Con-way were out to kill YRC Worldwide," he says. "But when that didn't work out, they took rate increases. We got in during that competitive time, but when they did hit us with rate increases they saw volume drop off immediately—and soon after they took it back off."

TAKING THE PLUNGE

O'Mahony credits the rating tool, which is based on a model used by most third party logistics providers (3PLs), with keeping carriers on their toes through honest competition.

The idea was to diversify ParknPool's carrier selection and create a base of several core carriers both in its long-haul and regional lanes.

"We saw across the board that all of our LTL carriers made use of API technology," O'Mahony explained. "We can see all the carriers' rates per our tariff and it gives us the bottom line rate for each shipment."

All this is done by entering four pieces of information for every shipment—shipper ZIP code, consignee ZIP code, weight, and classification. Enter that information, push a button, and specific rate quotes with individual tariffs are given nearly instantaneously from every carrier along with transit times on a shipment-by-shipment basis.

While the main goal was to be able to select the best carrier on a shipment-by-shipment basis, O'Mahony found several unforeseen benefits including:

- **Maximized lane efficiency.** While O'Mahony found some carriers were not able to provide competitive rates on one lane, others could step in and provide that service with far better rates.

- **A climate of constant competition.** "One of the benefits is that our carriers know we're doing this," he says. "It turns the negotiation table into more of a math equation. I like all my transportation sales reps; but if they don't get a shipment it's not because I don't like them. It's because their company is not giving me the best rate on a particular lane."

- **Insulation from cost increases.** If one carrier chooses to raise rates,

there are options. He's found that some LTLs have stayed with rate hikes, but others can see that they've reduced business with them and then reduced their tariffs as a result.

"It's not perfect," O'Mahony says. "But compared to where we were, we likely would have had to absorb many of those price increases."

It turns out that the rating tool has



proven to be a boon to sales as well. Prior to installation of the tool, whenever a ParknPool account manager fielded a call the person had to rely on the supplier to provide an estimate of the cost of transportation. This required a secondary call to the supplier, which meant the customer could not receive a final quote until later in the day. Usually, that took at least another hour. Sometimes, during that interim, sales were lost.

Now, as soon as a customer calls, the account manager can receive a final estimate on cost nearly instantaneously while on the phone. "We have that pre-programmed in and it literally takes about two or three seconds to pull that information," O'Mahony says. "Before when we quoted shipping, it was roughly \$1,700. Now it's like \$500. Customers are surprised rather than offended at our shipping rates."

O'Mahony says ParknPool ships "for a lot less" than its competitors. "But we've made a lot more money as a result of this logistics move," he says. "Our sales are faster and more efficient with this tool in place."

DEEP DIVE

At a time when fuel surcharges are rising in double-digits and carriers are trying to take rate increases in the 5 percent to 6 percent annual range, ParknPool has seen its transport costs drop from 17 percent of sales to what O'Mahony estimates will be about 5 percent of its sales this year.

ParknPool currently uses three large national LTL carriers—YRC, FedEx, and ABF Freight System—that O'Mahony says are "all very close on rates." It utilizes about a half dozen regional LTL carriers, including South-eastern, Roadrunner, Holland, and Reimer in Canada.

As far as the carriers go, they seem pleased that ParknPool is so engaged

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with them. Recently, ParknPool honored YRC Worldwide with its carrier of the year award for excellent service.

Michael Driscoll, the YRC senior sales executive charged with the ParknPool account, says it's a "good account for YRC. We value their business." When asked about ParknPool's rating system of carriers, Driscoll says YRC is comfortable with the arrangement. "It lets their employees see a side-by-side price and service comparison on each order shipment," he says. "This allows ParknPool to choose the best carrier for each shipment."

Driscoll adds that such transportation management systems "are definitely a trend" in the industry. Some companies are bringing them in through contracting with 3PLs and others are purchasing software and integrating them directly into their existing systems. "I definitely understand the need to determine actual shipping costs and trying to reduce transportation expenses in general," says Driscoll.

For his part, O'Mahony says the new in-house transportation management system has brought his company out of the Dark Ages of transportation and onto the cutting edge of relationships with ParknPool's carrier base.

"It's changing the dynamic between shipper and carrier," he says. "It's one of the biggest benefits of this tool." □

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