Transportation Management Systems: Understanding the full value proposition
Transportation management systems (TMS)—once only a solution for mega-shippers—are becoming as common in the trucking industry as air horns and antilock brakes. Costs of adopting a TMS are coming down, and access and usability is easier than ever thanks to the technology’s move into the cloud.

In fact, there seems to be a feeling in the transportation community that the adoption of TMS by shippers is inevitable. It’s no longer a question of “if” a shipper will adopt a TMS, but “when.”

“I do believe that in the next five years every shipper will have at least a TMS system for rating, if not a more comprehensive solution,” says Tony Totta, director of sales for eShipping Exchange, the TMS offered by Pitt Ohio, a regional less-than-truckload (LTL) and interregional trucking company.

According to Totta, the reasons for TMS adoption in this ever-changing transportation landscape are multifold. Shippers—whether manufacturers or distributors—are looking to gain more control over more ends of their business.

“If you’re going to try and control your costs, you need a transportation management system,” says Totta. “When there’s limited slack in capacity, as there is currently in trucking, it behooves you to make sure that you’re optimizing shipments with your carrier base. That’s difficult to do manually, but it’s fairly easy to do electronically.”

Historically, TMS has been expensive to install and operate. Manufacturers needed a certain volume of freight to make it work, but with web-based TMS systems becoming widely available, sometimes in less than a month the initial costs are covered.

“Think of it this way,” says Totta. “TMS may be at the point now where, say, e-mail was in the mid-1990s.

Over the next few pages we’ll dive a little deeper into what’s driving the use of TMS beyond simply sharing the aggregate function of choosing a carrier from Point A to Point B. We’ll look at how shippers can fully optimize their TMS functionality and why using an existing carrier’s TMS can work to your advantage.

**Popularity booming**

Why is TMS more popular than ever with shippers? The short answer is price. Competition in the marketplace is driving companies to run more “lean” with labor and spread more responsibility across fewer jobs. TMS is one vehicle that
enables shippers to better compete by improving the efficiency of their carrier procurement process. Companies that choose to operate without a TMS place themselves at a serious disadvantage relative to their more cost efficient and tech savvy competitors. In the past, TMS required expensive, custom-designed software that was expensive to maintain—that has changed over the past few years. New cloud-based systems have allowed users to better control their costs while accessing a suite of expertise to extend deeper into their supply chains, an area where savvy shippers are discovering the true value of TMS use.

Also, cloud-based software has enhanced the popularity of TMS among shippers. Using cloud-based access allows nearly free installation with relatively low upfront costs. In fact, if a carrier can host a TMS in a way that's favorable to a shipper's systems, such as in the cloud, that provides an easy on-ramp to the technology.

"Even on the most complex solutions, in 30 days to 60 days we're up and rolling with very little interaction from the client," says Totta. "I see people's business driving them to get better tools and insight into how they run their business, and the model we have from a carrier they know and trust is a very easy solution to embrace."

A carrier, through a TMS such as eShipping Exchange, has access to transportation management services typically offered through a traditional third-party logistics provider (3PL). However, through a carrier-based TMS, customers can maximize the strengths of a carrier who already knows their freight and understand their business.

In a situation such as this, eShipping Exchange accomplishes three main goals:

• Reduces TCT (total cost of transportation) for shippers.
• Streamlines the process for shippers.
• Adds profit to the bottom line for both carriers and shippers.

But the key to effective TMS use is marrying both the technology of the system with the expertise and capabilities of a team of transportation experts already familiar with a shipper's freight and their network of customers.

Also, TMS systems simply work better these days. In the past, a shipper could spend tens of thousands of dollars on safety and not see results. Nowadays, TMS systems are simpler, more reliable, and seen as the wave of the future.

**Optimizing TMS functions beyond rates**

The full value proposition from TMS systems goes way beyond simply negotiating freight rates with carriers. To gain the greatest use from TMS, shippers should use it to choose the correct routing mode, assist in carrier selection, allow for client notification and tracking, audit pay and invoicing, and use the analytics gathered in that process to move supply chain operations to the next level.
It's called “process consolidation,” and it's where the biggest bang for the TMS buck can be found. For instance, eShipping Exchange allows for the capture of hundreds of data points for every shipment processed in the system. The resulting mountain of raw data is something most shippers find too difficult to manage. However, when translated into business processes at the point of decision, the data allows shippers to exploit opportunity across their business.

However, according to recent research by Logistics Management, few shippers are fully engaging with their TMS, getting the comprehensive multi-mode solutions with actionable analytics that they could be realizing.

Getting on board
So, how does a small- to medium-sized shipper make an informed decision on what’s the correct TMS provider to match their business? After all, TMS technology began with a focus on larger-scale enterprise companies with multi-national shipping needs such as mega-shippers Caterpillar and Toyota. Bringing that large-scale solution to mid-market customers becomes prohibitive, and may not be right for all shippers.

To capture the correct data you need the right tools. Information is worthless unless it can be made legible, measureable, and actionable. But if it’s captured correctly, that information can be managed and put to work.

Through processing a shipment, a carrier such as Pitt Ohio also captures a data snapshot of that piece of freight. That relevant information at the point of decision is vital to making informed decisions up and down the entire supply chain.

“We see capturing that data as useful to a procurement strategy,” Totta explains. “That relevant information can help in procuring raw materials, informing your sales force, equipping customer service, and aiding accounting and finance. You literally cover every area of business.”

So, why use TMS from a trucking company and not a 3PL? For one thing, users should remember what TMS stands for in the first place. After all, it's called a transportation management system. From that perspective, bringing those problems to a transportation provider makes all the sense in the world.

Carriers are moving toward TMS because its model is perfect for the times. “Right now, for instance there is a capacity crunch in trucking. Now, you have a carrier-backed solution with assets in the marketplace,” Totta explains.

Another reason, at the functional level, is that carriers have been partnering with shippers for years—they know your business and they understand your freight.

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**Why go with a trucking company for your TMS?**

There are at least five simple reasons that a trusted trucking partner, such as Pitt Ohio, is the best choice for a TMS solution:

1. Carriers know your freight. After all, they’ve been handling it at your dock almost every day.
2. Service. Your carrier already knows what you want, when you want it, and what you want to pay.
3. If working with a carrier with high degree of confidence already, why change?
4. No double jeopardy. If an outside TMS provider fails, there may be double payments.
5. In the eShipping Exchange model, you’re not reliant on a sales network and people chasing their commission.

“One of complaints we hear is lack of true account management support,” says Tony Totta, director of sales for e-Shipping Exchange. “By housing this service within the entity of eShipping Exchange, carrier members also achieve solution objectivity for their clients while delivering industry leading account management.”
“Extending a TMS service offering to their current client is a natural fit,” says Totta. “It may seem that TMS use by carriers goes against tradition, but it’s actually a very natural evolution of the shipper-carrier value proposition. Carriers need to be part of solution.”

Efficient carriers such as Pitt Ohio like TMS optimization because they already know the different operating costs incurred on various traffic lanes. TMS makes it easier for a shipper to manage the lane-based pricing that is already used by many progressive carriers.

This enables a win-win for the carrier and shipper. The shipper wins by moving the right shipment on the right truck at the right price. The carrier wins by handling more shipments in each lane with adequate profit margins.

Use of a TMS enables carriers such as Pitt Ohio to attract more business in its low-cost/low-price lanes and some additional business in its higher-cost/higher-price lanes when the shipper needs a high performance service carrier.

**Bigger benefits**

Shippers have long appreciated TMS to obtain the best freight rates. But while optimizing shipping rates can provide some savings, experts say this is not the area where a company can realize its greatest gains. To gain the true benefits of a TMS, shippers must use it to optimize the entire supply chain. But that can be difficult for companies to fully comprehend. After all, transportation is often viewed as merely a cost center, not an information provider. How many times have you said: “We never get any attention from our IT department?”

TMS adoption through a carrier can reverse that.

Let’s say you’ve been shipping with Pitt Ohio for a few years and have a strong relationship with your local sales rep. That rep has already recognized that there are many manual processes that are wasting time. Pricing is out of line, and there are many challenges for inbound freight.

Because you’re a mid-market organization, you have your production teams receiving freight as well. That lack of visibility on inbound is creating all kinds of problems, and there is “maverick buying” going on by vendors who are simply shipping the easiest way—and perhaps not the best way. You, as a logistics manager, were often handling freight rate negotiations, but that wasn’t really your field of expertise. And unfortunately, there is a cost involved in that.

Pitt Ohio’s TMS offering through eShipping Exchange is now able to optimize carrier selection and identify how to more strategically put its network to use as well as other carriers where necessary.
An inbound/outbound optimization network is put in place, and vendors are encouraged to submit requests and receive specific outbound shipping instructions.

One thing a TMS system does best is capture trucking rates along all points in the supply chain, and helps select the most efficient carrier. Carrier routes are optimized, transit times are reduced, and rates are negotiated at optimized cost—and you get a daily report on everything in transit inbound. Customers are notified on shipments coming, opening up visibility and communication within your entire supply chain to exploit efficiencies internally.

The bottom line is that TMS solutions power shipper’s management approach regarding transportation and deliver net returns across business units.

“We tend to be very conservative in our initial rate savings until we process a customer live,” Totta explains. “Then, as we get live data, we work with the customer on how that business can improve and correlate our efforts along those lines.”

Whatever the savings, adds Totta, the customer should be able to pay for the TMS installation several times over. “We want to work with our customers on how they do business and find ways for them to be more efficient,” he says. “How does this enhance what you’re doing and make you more efficient? We want to provide you with tools to do that.”

One constant truth in the transportation business is that if you wait five minutes something will change. That’s because there are so many moving parts. But with TMS usage taking off, shippers should remember to try and gain optimum benefits from their adoption.

“It’s time to take a look at the bigger picture,” adds Totta. “If you’re focusing on rates, you’re stepping over dollars to pick up dimes.”