DEVELOPING A CORE CARRIER PROGRAM

Protecting your company against capacity shortfalls

In a recent Stifel report, it was noted that the "mother" of all capacity shortages is expected to hit the United States in 2017 as a series of government regulations reduces the supply of fleet equipment by five to fifteen percent. Despite the efforts of carriers to raise pay, upgrade facilities and improve the lifestyle of drivers, annual turnover stubbornly remains at close to one hundred percent in many fleets. On the rail side, a huge upswing in the movement of energy products by this mode has had a deleterious effect on intermodal capacity and service. Wise shippers realize that trying to secure carriers on the spot market is a risky endeavor since this leaves them open to capacity shortages and rate volatility.

What can your company do to protect itself if there are capacity shortfalls?

Is your company ready for even tighter freight capacity? Will the integrity of your company's supply chain be maintained in this ever-changing environment? What can your company do to protect itself if there are capacity shortfalls? Here are some suggestions.

1. Bring your top performing carriers under contract

An important first step is to view your major carriers as business partners. As such, it makes good sense to negotiate formal multi-year contracts with capacity commitments and service guarantees. As you engage in these types of discussions, find out how your business fits within the parameters of their operation. Does your freight move on their primary traffic lanes? Do they have head haul or back haul in the reverse direction? Are you a valued customer?

2. Do your Due Diligence

An equally important step is to evaluate the extent to which your top carriers can meet your range of inbound, transfers and outbound movements of freight. Some traffic lanes are easier to cover than others. One often finds that there are certain particular (remote) lanes or requirements that require specialized carriers or equipment. These lanes and services may best be served by a local carrier or freight broker. Searching out regional or local carriers may take some time and due diligence. To be safe, it may be helpful to test and interview these less known players to ensure they can perform at a high level.

3. Secure Back-up Carriers on every lane

Where are the weak spots in your supply chain? What would happen if one or more of your core carriers went out of business or stopped hauling your company's freight? With limited capacity, carriers are allocating their scarce equipment and drivers to the highest yielding customers. Many shippers have been surprised to see their carriers come to them with substantial rate increases to improve margins or as a mechanism to de-market their accounts. Do you have backup carriers on all of your lanes? Do you give them a percent of your freight to keep them engaged with your company?

4. Look out for Quantity and Quality

One should never forget that some carriers are better than others. The better carriers have higher quality management, have more motivated staff, employ more highly trained personnel and utilize newer model equipment and better monitoring systems. Higher quality can translate into better safety ratings, superior productivity, fewer damages and theft and happier customers. It is wise to interview all prospective carriers for your company to see if they are Smartway certified, to review their CSA or CVOR (in Canada) scores and to inspect the quality of their customer service personnel, their equipment and their information systems. If you are considering using a freight management company, it is fair to ask them about their systems and those of their core carriers.

5. Focus on Performance

Missed pick-ups, late deliveries and damaged product all cost companies customers. Review your on-time service and billing accuracy reports. Make sure that they are at a very high level. In this extremely competitive world, superior performance allows a company to stay ahead of the competition.

6. What can your company do better?

Where does your company fit on your carriers' scorecards? Is your company a profitable account for all of your core carriers? Are there any lanes that don't work for a particular company and would be better handled by another carrier? What is the one thing that your company could do that would make your account more profitable for some of its carriers? Are you willing to work with those carriers to make it happen? What can your company do to rank higher on their scorecards? Do you have regular (quarterly) meetings with your core carriers to address and fix problems?

Proactive companies should go through this due diligence exercise now so they protect the integrity of their companies' operations.

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