How to Lower Freight Costs and Increase Service Through Mode Flexibility

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Shippers need to embrace a more agile and responsive approach to transportation mode flexibility in order to keep service levels high and costs low, not only during the current freight capacity crunch, but in order to better ride the coming freight cycles. A good transportation solutions partner with smart technology makes it possible.

Shippers face a complex task when considering the most appropriate mode of transportation for freight. The process by which a shipper strategically chooses and changes how goods are moved involves much more than a basic cost-benefit analysis between, say, the higher price of air transport versus the faster delivery time it guarantees.

Transportation mode flexibility allows a shipper to choose how it will transport freight. Until recently, shippers tended to make these decisions based on simple, uncontrollable factors. For instance, if their first choice of transportation lacked capacity, the second option would be chosen as the backup. They would also tend to switch between modes of transport less frequently; a shipper might switch for an entire season in order to match broader freight capacity cycle times.

Steve W. Martin, senior vice president of dedicated transportation solutions (DTS) for Ryder, believes a different vision of mode flexibility is possible. "What we've envisioned is for shippers to have the flexibility to change modes throughout a cycle," he says. "The idea is to have that mode flexibility in place in a way that allows them to make decisions based on the dynamics occurring that day, week or month. Today's situation with freight is uncertain, unbalanced, chaotic and stressful. Shippers need a variety of modal options in order to satisfy their customers' expectations."

Ryder encourages its customers to think in terms of options that go beyond air, road or rail. "Just within 'road,' there are multiple ways to move freight — via the spot market, private fleet, contracted or dedicated capacity," Martin says. "And it's precisely within that context that shippers need flexibility." In order to make the best choice on an ongoing basis, shippers need more visibility into capacity, as well as a better understanding of their own demand and the consequences of inconsistent service levels. Often, Martin points out, the best way to optimize this decision-making process is to have a partner that helps shippers decide how freight should move, so they can get on with their core business rather than get distracted by complex freight operations.

For example, a shipper could have a contract for dedicated capacity, but also use common carriers when it makes sense to do so. "That way, they have capacity on either side of the equation, depending on how order volumes go," Martin says. "They can make the most of that dedicated fleet and decide what should go to the outside market — a common carrier or the spot market."

Martin warns that the deep disturbances to the global supply chain and freight industries over the last 18 months have made transportation mode flexibility more desirable than ever. "The pandemic accelerated a number of things. Obviously, you have the chaos and disruption, and the challenges from a labor shortage standpoint, which make it difficult to ensure you have enough capacity to service all the different needs in the supply chain and quickly compensate for unbalances in the network," he says. "But then you have a very fast and accelerating e-commerce scenario, which is creating added pressures, and more demands for freight movement. We're looking at an increase in the Amazon effect, where customers want things in a very tight time frame."

It's clear that flexibility enables faster and more predictable deliveries, but what about savings? Martin says freight mode flexibility is an important way to drive down costs. "You have to start with the premise that costs have gone up in general and will continue to go up. Then you overlay that with the disruptions I mentioned. The situation that exists today is that there's more demand for freight movements than there are drivers and carriers to move the freight. If you don't have the flexibility to service your network in a truly agile and responsive way, you're going to be forced to go spot, and carriers are going to make the most money they can."

A lack of modal options results in costly business disruptions, whether due to shortages of parts or materials, or a failure to get goods to market. But shippers can mitigate these risks by having the flexibility to shift transport mode quickly, allowing them to consider the bigger financial picture when choosing how best to move freight.

"You have to think about it in terms of total cost, not just one mode," Martin says. Yet not all companies have the resources to rethink freight buying this way. "Maybe some very large shippers can do that, but most lack the buying power to create that flexible model. It's a good idea to have a partner that has deep relationships with multiple carriers and can then add its own dedicated operations. You put all that together and you have a strong, flexible model that ensures consistently high service levels."

Ryder's experience with long-term partnerships also helps customers save money. "Ryder has a unique position in having so many carrier relationships, and the sheer volume with those carriers strengthens those relationships," Martin says. "That means that the carrier isn't necessarily chasing the best rate in the market. They're committed. Long-term relationships really help with the type of service impacts that can occur when capacity is tight."

Carrier trust also improves through this model. With the influx of software offering visibility and real-time analytics, collaboration between shippers and carriers has never been easier. When a carrier comes to pick up a load, it can feel confident that everything will be there on time. If not, it's advised well in advance, Martin says.

Shifting between less-than-truckload and truckload when considering road freight choices also becomes a more sophisticated matter than simply assigning one or the other to a particular class of goods or customer on a long-term basis, which is what traditionally happens. For example, Martin explains, a shipper might opt for dedicated operations with the ability to make multi-stop deliveries, which makes it in essence an LTL service. With innovative technology such as Ryder's digital platform RyderShare, which offers end-to-end visibility into load availability and vehicle positions in real time, as well as the ability to manage an entire network from a single point, options widen. Richer data capture and analysis helps shippers move and manage their freight network in a more proactive, responsive way.

"We look at their data with a view toward optimizing the mix, making continuous improvements and recommendations," says Martin. "We see where a shipper could be moving TL freight into an LTL model, or LTL shipments that could be light-hauled, consolidated and delivered in straight trucks. And so on. That's part of the value-added service we bring to the table."

So how should a shipper determine whether it needs the transportation mode flexibility that partnering with a provider such as Ryder will give them? Martin says the shipper must first evaluate whether its current freight system supports its customer service expectations — not just today, but down the line, when the freight cycle changes.

"There's not just one mode model. You need to build a business model that has that flexibility, so you can think about having a core capacity, or a dedicated or private fleet scenario when it comes to serving critical customers or areas of service."

"The shipper needs to ask, 'Do I have the business partners I need to maintain service through the upcoming freight cycles?' OK, capacity is tight today, and in a few years it will swing back to favor shippers. Am I creating the right business networks that will allow me to manage through those cycles?"

According to Martin, perhaps the best question to ask is whether you can plan your budgets and keep to them, while preserving consistency in freight providers. "If you make the wrong decision, you can end up completely upside down on your budget in the future," he says. "You can make the most of the current situation now and abandon those you've been working with, but it's important to look at a further horizon."

Overall, when it comes to freight mode flexibility, shippers need to take a more strategic, holistic approach, Martin says. "There's not just one mode model. You need to build a business model that has that flexibility, so you can think about having a core capacity, or a dedicated or private fleet scenario when it comes to serving critical customers or areas of service. But then you're also building the flexibility that allows you to adjust volumes assigned depending on freight cycles. That's what helps maintain total costs over time."

Flexibility, in general, is the watchword, Martin concludes. "It's critical because so many things can happen on a given day that can disrupt a plan," he says. "So you need the depth in your network that really allows you the flexibility to ensure you're going to meet the service levels."