

OPPORTUNITY DESPITE UNCERTAINTY:

BEST PRACTICES FOR MANAGING **DRAYAGE SPEND** IN AN EVOLVING MARKET



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FROM INSIGHT SOURCING GROUP

A VOLATILE 2020 DRAYAGE MARKET

With 2020 shaping up to be another year characterized by uncertainty and change in the drayage market, many procurement and supply chain professionals are asking how to best manage this critical and often sizable category of supply chain spend.

Ongoing questions around the effects of Assembly Bill 5 (“AB5”) in California, similar worker-classification legislation under debate that would nationalize AB5-like provisions, continued driver shortages, and newly introduced technologies are creating significant noise in the market. As a result, many organizations demanding drayage services find themselves struggling to effectively budget for and manage their drayage costs.



Despite these uncertainties, we have found that organizations proactively addressing their drayage spend not only are affording themselves a higher degree of protection from market volatility but are also driving significant and measurable savings for their organizations.

How are effective organizations doing this?

DRAYAGE SPEND BEST PRACTICES

We find that the procurement teams driving significant savings on their drayage spend are focusing on the following three areas:

☑ **Challenging the Status Quo by Proactively Sourcing Drayage.**

Stories of continued driver shortages and fear over the impact of AB5 and similar legislation have translated to expectations of drayage cost increases at many organizations or, at a minimum, have created apprehension around launching a sourcing event; however, we have found that a highly competitive market of drayage providers continues to exist at most ports and railheads.

Organizations willing to challenge the status quo and explore the introduction of different cost models and/or qualified non-incumbents to their roster of drayage partners have been successful in not only mitigating price increases and locking in rates (in so doing, protecting themselves from market volatility) but also in driving 10-15% reductions in line-haul rates in many key markets. Additional target outcomes of a sourcing process should include standardizing FSC schedules and accessorial tables across partners.

☑ **Considering Local and/or Regional Carriers.**

Local and regional drayage providers typically offer a lower price point, with service levels often equal to or faster than major national providers. If you are only using large national providers, chances are you are leaving money on the table.

At Insight Sourcing Group, we have recently seen cases where the best national carrier pricing in a region is 10-20% higher than the best regional carrier pricing. If you are looking to reduce drayage costs, it is important that you are including a comprehensive list of both local/regional and national providers in any competitive event.

☑ **Evaluate Market Innovations.**

Drayage has long been a category following traditional operation models and favoring relationships over technology. Over the last few years there have been several players bringing innovation to the market and promising easier, faster, and smoother drayage transactions. These providers are leveraging data and live tracking to bring immediate visibility when freight is ready for pickup, connecting shippers with the right carrier, and helping that carrier find its next load.

Estimates are that as much as 20-50% of Drayage costs are due to inefficiencies in process and operations. Carriers using these providers have seen over 60% increases in the number of containers pulled per truck. Together both shippers and carriers can utilize these tools to bring efficiency and reduce costs. Insight Sourcing Group recommends clients evaluate these partners as potential options to augment and improve their operations.

CONCLUSION AND KEY TAKEAWAY

The key takeaway here: Proactively addressing and managing your drayage spend can not only help to limit exposure to market volatility but can drive meaningful and ongoing savings straight to your organization's bottom line.

Insight Sourcing Group has had tremendous recent success partnering with organizations to execute on the cost optimization approaches described above, in many cases driving savings in excess of the ranges outlined above and delivering a strong ROI. If you are interested in learning more or looking for a partner with the capability and expertise to execute on the approach to drayage described above, please contact Dylan Alperin at dalperin@insightsourcing.com or **(770) 769-5011**.

AUTHORS AND KEY CONTACTS



Erik Trum
Manager and Engagement Lead



Sara Billings
Associate



Dylan Alperin
Logistics Center of Excellence Lead

ABOUT INSIGHT SOURCING GROUP

Insight Sourcing Group is the leading boutique consulting firm in North America focused exclusively on strategic sourcing and procurement-related services. Founded in 2002, the firm works with senior executives and procurement leaders to accelerate strategic sourcing savings, increase spend visibility, provide ongoing category analytics for savings tracking, and implement procurement best practices. Insight Sourcing Group has worked with hundreds of corporate clients of all sizes and over 50 private equity firms.

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