



7 Critical Mistakes Shippers Make When Negotiating Transportation and Logistics Contracts And, What You Should Do About It!



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Negotiation is a fine art. When it comes to negotiations between shippers and transportation/logistics service providers, there is much to gain, and even more to lose. Do it right and you create a strong strategic alliance that will yield incredible financial rewards and un-paralleled service and support for the long term; do it wrong and you create chaos, stress, loss of revenue, and maybe even your job!

Want to achieve positive and powerful transportation/logistics partnerships for the long-term? Sure you do! Strong and mutually successful transportation/logistics partnerships are a key factor to obtaining the best rates and exceptional services for the long term. 3PLs, freight carriers and brokers also benefit from these strong alliances by helping them not only retain current business, but more importantly help them to grow their businesses substantially for years to come.

Are you sabotaging your transportation and logistics negotiations? The answer might surprise you. The following is a list of the seven critical mistakes shippers make when negotiating transportation and logistics partnerships. Fall into these traps and you are sure to sabotage your company's chances of creating a positive strategic transportation/logistics alliance that will yield real, measureable and positive results for the future.

1. *Cutting Yourself Too "Good" A Deal*

Over the past several decades transportation and logistics professionals have been honing their negotiation skills in an effort to obtain the "best deal" possible for their company. As companies continue to grow through mergers and acquisitions, there is a significant desire to use corporate size and shipment volume clout to seek to obtain a huge advantage over its prospective business partner. While the "lead" negotiators for the shipper have a corporate obligation to ensure they obtain the best value for their individual companies, it is not wise for them to force their "partner" to agree to pricing terms that negatively impact the business partner. If this is going to be a true, long term strategic alliance both parties must benefit operationally and financially from the impending relationship. The initial euphoria of "gotcha" will wear off real fast! There are many unintended consequences that develop when such arrangements are made including inadequate and in many cases totally unacceptable service; lack of response from strategic partner operations teams; the need to increase costs to make up for losses long before expected and ultimately the "loser" just walks away from the relationship and leaves the "winner" holding the bag. Then the real question becomes, who really won in that negotiation process! Remember this arrangement needs to be a "good deal" for both parties!

2. *Failing To Have An Exit Strategy*

Thinking about an exit strategy at the beginning of the negotiation process might seem illogical, however as experience tells us “nothing is forever.” If things don’t work out exactly as planned what do you need to do? When do you need to do something? How and when do you react to signs that things aren’t quite right in the strategic business relationship? Or do you just wait for things to fall apart before acting...we think not! On the other hand when things are going well some companies decide several years into a “normal” business relationship to “shake things up” by shifting their business to one of their current business partner’s major competitors. This certainly does have the effect of keeping all competitors on their toes. It does not however bode well for creating long-term strategic alliances. It tells the service provider, all we really care about is obtaining the most competitive rates. Without a clear plan to shift gears either on the fly or after a contract has reached its termination point, both parties have some real homework to do. Is this business worth doing? Is this the right service provider to handle this business? What options do both parties have? With all this in mind, companies should always have an exit strategy that takes into account not only how to properly exit from a partnership without incident, but also, when is the best time to do it; and this applies to both parties in the business relationship.

3. *Not Creating Clear Expectations*

One of the main reasons for failures in creating strong and long-lasting strategic partnerships is the fact that one or both sides in the relationship failed to properly understand all of the expectations and/or the capabilities of the potential business partner. Often times, partnerships fail because one side or the other believes the other party clearly understood all of the expectations to be derived from the relationship. That is a real mistake which shippers, carriers and logistics service providers should never allow to happen. Never take ANYTHING for granted. Ask, test, validate and test some more. Remember, building strong and effective business relationships is a continuous “Contact Sport.”

How will the success of the relationship be monitored and measured? Who will be responsible for tracking the success or failure of the ongoing relationship, on both sides of the fence? A good starting point is to create a “Scorecard” which takes into account the following expectation tracking elements:

- “True” and Bottom Line Cost and Profit Metrics
- Identify and Implement Exceptional Service Standards; Track and Continually Measure and Report Service Standard Compliance
- Invoicing Accuracy and Prompt Invoice Payment Standards
- Exception Free Transportation and Logistics Services; Create Valid Metrics and Continually Monitor
- Continuous Improvement Initiatives for Both Parties
- Sales Representative and Client Involvement Responsiveness
- Reporting Capabilities; Consistent, Timely and Accuracy of Data

- Shipment and Transaction Visibility/Traceability
- Expertise of All Parties in the Relationship
- Customization and Flexibility Initiatives
- EZTDBW “Easy to do Business With!”
- Continually identify and Implement Value Added Services
- On-Going Annual Cost Savings and Service Optimizations
- Comprehensive Implementation Plans
- Technology Requirements and Resources

4. **Not Including Key Players and Taking Shortcuts**

A classic mistake takes place when company's fail to consider all of the key stakeholders who will be impacted by the impending business relationship, especially in the preparation phase of building the relationship. It's important to remember that there are both internal and external customer relationships on both sides of the intended partnership. And, the effect on these relationships MUST be considered in the initial research AND also as part of the ongoing negotiation process.

Some of the parties involved might include Customer Service for example; not only for the service provider, but for the shipper as well. What's to be expected from a customer service standpoint? Will transit times change, or will there be new services provided that the ultimate customer might need information on? How do these messages get translated to the ultimate customer? How does this impending relationship affect all aspects of customer service?

Will the Sales and Marketing group of the service provider be required to call on local shipping and receiving facilities to ensure 100% customer satisfaction? Will the sales and marketing department of the shipper now have “New” sales literature and value added services to review with their customers? How will the message be delivered and what metrics will be used to determine the true value this new relationship will bring?

Costing and Finance need to be brought into the process as well. How are costs going to be calculated? Will there be considerable savings to be derived from this new relationship or will the costs increase because more enhanced services are being offered? How will these costs be measured? Who will be responsible for assembling the data and who will be responsible for reporting the information? How often will reports be created, reviewed and reported to upper management.

And perhaps most importantly, Operations, both corporately and locally must be brought into the process early on and often. Operations must clearly understand the what; what's to be expected with this business relationship; the Why, why the decision was made to enter into the relationship and finally the How; how the business relationship will affect their individual operations.

Obviously most companies are eager to implement new strategic alliances as quickly as possible so they can immediately gain the benefits the partnership agreement is intended to yield. However many companies fail to understand the major problems that can and will occur if first,

the proper research is not done; secondly, the wrong strategic partner is selected; and third if the entire process to be implemented is not completely understood by all of the members of the negotiating teams on both sides of the fence. You see as human beings we want and expect instant gratification and that gratification could come from reporting huge savings as a direct result of implementing a new business alliance, or a huge increase in revenue for the transportation and/or logistics service provider. However, that instant gratification can turn into instant trouble if the partners commit too early without dotting every “I” and crossing every “T.” It is much better to hold off the implementation process until both sides agree they are totally in sync on all aspects of the intended business relationship. This is also a major problem when firms don’t perform the necessary “due diligence” to seek out the most compatible business partners to join forces with at the outset. Remember “Ready, Shoot, Aim” is not the best approach in these cases. Yes, we know management is constantly looking for cost savings, increased revenue and process improvements, but you must make sure you do not take any shortcuts that will come back to haunt you in the future.

5. Ignoring Seemingly “Small” Details

This is one of the most critical aspects of any intended business relationship. All of the key stakeholders should have complete access to the desired plans and detailed information to ensure a successful strategic alliance. All too often however, what seems like a small detail is not always considered. Items such as who will have responsibility for tracking the success or failure of the overall operation; are different business units impacted by the intended relationship and if so, who at each division will be given the responsibility to track the operation and report the success or failure to corporate management; has anyone notified accounts payable that a new supplier has been added? And from the service provider side, has the credit department completed their investigation to make sure this new customer is not a major credit risk. All this seems fundamental, and it is, but you would be surprised at how many times seemingly small details are in fact overlooked.

We have also witnessed on too many occasions where once the “negotiation” phase of the process was completed assumptions were made by one party or the other that the all of the former contractual benefits would be retained, however when the “new” contract was submitted some of those benefits were no longer available. So in these cases what seemed like a small detail is really a BIG deal. Word of caution.....TAKE NOTHING FOR GRANTED!

Don’t leave anyone or anything out in your negotiation process, or certainly during the implementation phase. More importantly, continuous queries should be made to all parties involved in the process to validate the fact that nothing has been left to chance.

6. *Committing Too Early*

Sales experts in all industries will tell you “people do not want to be sold, they want to buy.” Essentially what that means for shippers seeking transportation and logistics service providers for their businesses, (assuming they believe they have found the right partner), they will be eager to immediately commit and get the relationship moving forward. This can and will always be a major problem for both parties if the wrong service provider is selected and, if the Shipper is not right for the service provider.

How will you know if this is the right alliance? This is where a good “sixth sense” will come in handy. These transportation and logistics negotiation processes often take many months from start date of seeking out qualified providers, to finalizing negotiations, to ultimate contract implementation. During this lengthy process a company may feel comfortable or uncomfortable for that matter for any number of reasons. However before signing on the dotted line, “now” is the time for that real and honest sixth sense “Gut Check.” We truly believe and we’re sure you’ll agree, that the “Gut Check” is in fact 90% accurate. You know what we’re talking about; in the initial stages of the conversation one party or the other hears something that makes them uncomfortable. But they just let things slide. Well, that’s the time to put up the stop sign and work through the concern before it’s too late.

To give a sense of the problems that WILL arise by committing too early without performing the proper due diligence, here is a real life story to prove our point. We recently helped a client initiate a Request for Proposal process for their domestic LTL trucking business. Based on our initial benchmark analysis we projected our client would reduce their annual LTL freight expenses by approximately 40%. All current and pre-qualified carriers were given a deadline to submit their pricing proposals. We analyzed each proposal when they came in and made our recommendations to our client of which carriers to use to obtain the best level of service at the most competitive cost. However there was one little sticking point; one of their current national LTL carriers did not submit a bid on time. Why? Just an oversight? Did they not want to bid on the business for a specific reason? Did they know something we didn’t about this client’s account?

Well it turns out that weeks’ after we made our recommendations to our client, that carrier did in fact come back with a very aggressive pricing proposal that beat the lowest bidder by almost 20%. Well, our sixth sense told us that this carrier could not possibly provide our client with the level of service the client required at the rate levels proposed. Unfortunately, our client looked at this as a great opportunity to save even more money. So, against our advice the client entered into a contract with the carrier without taking the time to assess our concerns and the ripple affect this decision would have on his business. Well, needless to say, three months into the process our client has received numerous late delivery complaints from his customers and to add insult to injury, they are also receiving charge-backs from many of their retail customers for these late deliveries that exceeded by far the savings our client thought he would receive. In this case, our “Gut Check” was correct. Again, the 90% rule!

Shippers and their service provider counterparts need to ask themselves several questions throughout the protracted process:

- Is this intended relationship good for ALL parties?
- Is this the right strategic partner for MY business?
- Will this relationship bring ALL parties significant value?
- Will this relationship negatively affect MY customers?
- Am I comfortable with my “GUT CHECK?”

If the answer to any of these questions is NO, break off the negotiations immediately. Put the process on hold. Take a step back and analyze why you now have these doubts. Just think if you're not comfortable during the negotiation phase of the process, you're certainly not going to be comfortable entering into a long-term contract.

7. Focusing On Money, Forgetting Service, Support

How many times have you seen the wrong deal negotiated with the wrong partners, for the wrong reasons? We don't know about you, but we have seen this unpleasant scenario play out year after year in many organizations. Often times, companies are solely focused on bottom line costs and totally forget about the service and support aspect of the intended relationship. Many times these decisions are driven by management demanding improvement in bottom line results through cost reductions. While we certainly understand the need for this focus, the real issue for companies to consider is that service and support ALWAYS trumps cost.

Some might argue this fact, but they cannot support it. Why you ask? Because, there are significant additional costs that shippers, carriers and logistics service providers absorb, when the wrong strategic alliance partner has been selected. The major problem however is that very few companies track these additional costs or even know how to generate the information necessary to calculate these additional costs. Here are some examples to digest:

- What does it cost to replace a customer because of poor service rendered by a freight carrier?
- What are the costs associated with opening up a new bid process because the current relationship is not working?
- What is the cost to move inventory from one 3PL to another because of a failed business relationship?

These are just a few examples, of course; the list just goes on and on. So what are the *keys to success in establishing relationships that focus on service and support, while at the same time, result in cost savings* ?

1. Thoroughly assess your company's needs first; and we mean THOROUGHLY!

2. Seek out only potential business partner(s) who can BEST meet each and every need of your company
3. Ensure that your business partners are ones that you have complete faith and trust in to carry out the relationship for the long haul
4. Practicing “Due Diligence” allows both parties to enter into a successful and profitable strategic alliance
5. Transportation and logistics negotiations are complicated endeavors. Remember that avoiding common pitfalls can save your company time, money and whole lot of headaches
6. And, most important of all perhaps, make sure your business partners understand that you are a well-informed strategic partner because you have done ALL of your homework.

Looking for more information? Consider a call with one of our seasoned logistics professionals. Ideas are free and we'd love to hear from you.

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