

Managing by Exception

A Strategy that Enables Logistics Companies to Leap Forward

By David A. Custred

Most people in the brokerage/logistics business will admit that there are plenty of opportunities for improvement. Take a moment and see if these situations apply to you:

You've got an order from a shipper and you need to find the right carrier quickly, so your team is busily poring over all of the data about available carriers. What if they could instantly eliminate eighty percent of the carriers from consideration and focus only on the twenty percent that might actually be a good match?

Your profit margin with one of your customers is down, but it's not immediately clear why. Instead of trying to find the needle in the haystack by scanning dozens of data sources on rates, costs, and contracts, what if you could view relevant data in dashboard format and immediately drill down to get at the problem's root causes?

You know how critical risk management is for the overall health of your business. That's why you have to keep track of the safety records for all of the carriers you use. The problem is that you're routinely viewing data that can be days, weeks, or even months old. What if you received an alert in real-time whenever the safety record of one of your carriers crossed a line?

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The fact is that these solutions are available now, and the benefits go way beyond these three examples. With the right IT tools in place, brokerage/logistics companies can utilize the strategy of managing by exception. Managing by exception makes it possible to sweep aside unproductive chores and concentrate on the tasks that truly affect your business success.

The Basic Challenges Facing Freight Brokers

To get an idea of how managing by exception works, let's start by reviewing the basic challenges facing brokers every day. The fundamental goal is to increase profit while mitigating risk, and the work of people at all levels of your company affects progress toward this goal. Staff who must match orders with carriers have to evaluate potential carriers with respect to many factors, such as contracts, safety records, performance records, insurance requirements, equipment matching, rates, and preferences. In many companies, this involves a rather time-consuming process of looking at websites, spreadsheets, and a host of other sources to find the right match.

Managers are trying to solve broader issues facing the business. They can find themselves spending hours examining reports that are supposed to help them make decisions on such matters as which freight is most likely to bring a higher profit, when to look for new customers and carriers, and how to ensure that contracts are being executed correctly. They're swimming in a sea of information, and they frequently don't have the tools necessary to analyze and transform fragmented data into highly-focused and actionable knowledge. Too much time is being spent on details and too little time is left to focus on the big picture.

How Managing by Exception Transforms These Challenges

The magic of information technology is that the right toolset will allow you not only to have access to a comprehensive range of data, but also to control which data is brought to your attention. This is absolutely critical and it is the heart of managing by exception. Here are some examples:

- **Matching orders to carriers** — Why look at one hundred carriers when only twenty of those are really viable matches for an order and maybe only five are ideal? A good software tool will show you only the favorable matches—you can call these the exceptions—and it will keep all of the unfavorable matches out of view. By enabling your software to display only carriers that have the appropriate attributes for a specific order, you greatly reduce the risk and amount of work involved in finding the best match.



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- **Monitoring profit margins** — If you're losing money on an order, would you rather know a week later or before the freight even gets picked up? Define profit targets and parameters within your system, ensure that all contract data is stored electronically, and you can receive alerts whenever an order's profit margin has veered outside of your predefined goals. You no longer have to scan reports that list every contract to find the ones that need your attention. The toolset brings the exceptions to you, and you don't have to bother with any of the others. Plus, once you've been alerted to a specific instance, you can use the system's analytical tools to quickly uncover the reasons why the profit margin got squeezed on this particular order. You've dramatically streamlined your ability to uncover problems and take corrective actions in response.

- **Tracking carrier safety records** — If one of your carriers has gone from satisfactory to conditional or worse in its safety rating, you need to have this information immediately available to everyone who might be affected by this news (And with the advent of CSA this is becoming more important than ever). Instead of routinely reviewing weekly reports that show the safety records of every carrier, instruct your system to alert you when any carrier's safety score suffers a hit. This is an excellent example of getting real-time data by exception as it occurs, not long lists of stale data from a data warehouse. You won't have to spend hours searching for the important points and you'll avoid the frustration of obtaining information too late to act on it.

- **Realizing your big-picture goals through visibility into the vital signs of the business** — Improvement starts with looking at the big picture and determining your goals as a business. With these goals in mind, you define your process and procedures, along with the Key Performance Indicators (KPIs) that allow you to monitor performance and progress. The toolset presents your KPIs in a dashboard format. You'll have an interactive, graphical display of the vital signs of your business with the ability to drill down, look at the core data behind the numbers, and conduct analysis. The combination of analytical tools and real-time visibility into KPIs puts you in a position to make the right adjustments and to make these changes in a timely and accurate manner. Keep in mind that this applies to every employee, not just management. Dashboards empower everyone to have better access to information, to make quicker decisions, and to track progress toward individual and company goals. You never lose sight of the big picture, because all actions are guided by your vision for the future.

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In these ways and more, managing by exception takes brokerage/ logistics companies to a new level of efficiency and success. It becomes possible to do more with fewer resources, because tasks that took hours previously are handled in minutes. Alerts bring the vital issues to the attention of management and free them from inconsequential matters. People at all levels throughout the company can concentrate more fully on taking actions that move the business forward. If these benefits sound appealing to you, it's time for you to start learning more. After all, it's a good bet that your competitors already are.

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