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Powering Transportation Innovation

WHITE PAPER:

AVOIDING THE PITFALLS OF A FIRST-TIME TMS BUYER

LESSONS TO LEARN BEFORE YOU PURCHASE A TMS.

Transportation management system (TMS) boasts one of the strongest ROIs of any supply chain management software: an average of about 7.5 percent in freight savings according to recent research by ARC Advisory Group.

A large, non-asset based logistics company was told by its TMS vendor that implementation and setup would be smooth and easy. The truth was anything but that, and the implementation failed. Many implementations and setups are complex and the success of the TMS depends on its fundamental design and configurability.

But a TMS is also notoriously thorny to implement, thanks in large part to the gap that exists between most TMS systems on the market and the needs of the current transportation industry. Most of today's systems were originally designed years ago. In practice, this means that systems oftentimes require complex configuration and setup just to move the first shipment, or that the TMS can't even handle what the customer needs (or handle it accurately). This gap has caused a large number of TMS implementations to fail to meet their project objectives. In fact, up to 40 percent of implementations by some estimates.

As a first-time TMS buyer, you don't know what you don't know. Perhaps you're not aware of the risk of failure in a TMS implementation, or you ask a vendor with hundreds of customers for a few references and then move forward.

Let's take a look at some of the key lessons to learn before you embark on a TMS project.

Lesson #1: Most TMS Systems were designed decades ago

Most TMS systems on the market today were designed 15-20 years ago. Therefore, the fundamental approach of the software is out of date. Think of how much has changed: Driver shortages have become too much capacity; we now have real-time API-based rating; EDI is becoming obsolete for carrier communications; technology has become the key differentiator for 3PLs, and so on. Out-of-date TMS designs don't enable good business practices and don't address today's industry needs.

For instance, let's look at sell side contract pricing for 3PLs. Many 3PLs are developing complex pricing programs to differentiate themselves in the market. This often includes a mix of pricing strategies, including at the order, load and shipment levels, along with open book or straight mark-up approaches. Now what if the 3PL wants

A modern TMS has very different data models and a fundamental design difference compared with older systems. This rift between older designs and current reality is too wide – an out-of-date design cannot simply be enhanced to meet your needs.

to combine the freight of multiple customers with different pricing within the same load or shipment? An outdated TMS couldn't handle that approach. Only a TMS that was designed with this complexity in mind – one that was born in the last several years – can provide the flexibility needed to manage it. This design difference also gives the 3PL an advantage over its competitors that are struggling to use outdated TMS systems in combination with this level of complexity.

No matter what TMS you have, you will run into shortcomings between what you need and what the TMS provides out-of-the-box. But whereas a traditional TMS will force you to change your business process or pay for expensive custom coding or develop manual "work-arounds," some of today's TMS systems provide the foundational design to more easily add new functionality and self-configure the system to align to the needs of your business. These contrasts in design are apparent to seasoned TMS purchasers, but first-time TMS buyers can have difficulty distinguishing them when marketing speak gets in the way of actual design and performance differences.

How does the vendor's TMS specifically fit your needs?

Lesson #2: Know the different types of TMS products

There is no common definition for what a "TMS" is anymore – there are different types of systems that address different needs, yet our industry doesn't have specific definition of these TMS products. For instance, Gartner refers to holistic multimodal TMS systems as software that deals with the planning and execution of the physical movement of goods across the supply chain. It's used by shippers or non-asset-based 3PL organizations. TMS applications and modules are available for tracking and managing just about every aspect of a company's transportation infrastructure, including vehicle maintenance, carrier selection, accounting, cargo care and handling, fuel costing, routing and mapping, and vehicle communications.

If a vendor says it's a TMS company, that doesn't always mean they can solve your problem very well. You'll need to look very hard to find as many providers as possible and match your needs to the strengths of the provider. Don't settle for the first few vendors you come across; dig deeper. Everyone has competitors, so if you find one solution that's capable of fulfilling your needs, there are likely five other

providers in that same category that you should look at. This is an important market dynamic to understand.

Take the time to figure out what TMS means for your organization, because the lack of clarity makes it even more important that you look at the right type of TMS to fit your needs. Failures will happen if you purchase the wrong type of TMS for the wrong application.

It's very unlikely that any one vendor can fulfill all needs well, so expect to be best-served by just a few providers (probably between three and six). As you do more research and start discussions with the vendors, one or two will usually emerge as the best fits.

Lesson #3: It's not the what, it's the how

The typical RFP process is ineffective. Asking vendors to simply review a long list of questions about capabilities and check a box doesn't actually vet the vendor against your needs. This is another reason that the TMS industry has a 40 percent failure rate: all of the focus is on what a vendor does but not on how they do it.

Many TMS products were designed to address certain areas, but how will the vendor address the unique needs of your business without introducing costly code changes or customer work. Today's TMS needs to meet a company's specific needs and culture. As organizations blur the lines between industries and rarely fit into neat little boxes, a TMS should conform to each business' specifics.

This is where the importance of a TMS' modern design comes in. Systems that were built decades ago can't fill in the gaps or tackle the problems that didn't even exist when the technology was created. For example, up until recently, managing pool distribution was a task that many shippers were unwilling to take on, and their technology systems weren't much help either. Some shippers use static routing charts, while others rely on their third-party logistics providers (3PLs) for the technology component. And while many of the Tier 1 TMS platforms support this type of freight consolidation, for example, those systems are also very complex and difficult to implement and maintain. Many older systems also struggle with dynamic planning, where orders changes constantly happen and dealing with real-time execution requirements.

How will the vendor approach and help you overcome your challenges?

If design didn't matter and checking the boxes on an RFP was adequate, then our industry would have a 90 percent success rate, not 60 percent.

You'll need to ask the "how" questions to really understand and appreciate how each vendor addresses your needs differently.

Lesson #4: Ask for proof

This is the most important point: When working through what I discussed above, you'll need to ask the vendor for proof. They'll all tell you positive things and any vendor can produce a few good references, but you'll need to find the unhappy ones to get a real sense of the vendor's capabilities and culture. Based on the 40 percent industry failure rate, assume the vendor has failed about half the time. It's better to deal with a vendor with dozens of happy customers and no failures versus one with hundreds of happy customers and hundreds of failures.

Ask or look for:

- A complete customer list and select references randomly to contact. For customers who have switched TMS providers, ask them to compare their previous and current systems.

- The vendor's press releases of customer wins and see if those same customers are still on the reference list. Find out why the TMS didn't meet their needs.

- A list of failed projects and the reasons why they failed.

- The vendor's customer satisfaction rate or attrition rate. If they don't track it, ask them why. Any vendor that doesn't know its customer satisfaction rate or that doesn't have a high one should be a red flag.

Avoid first-time pitfalls

It's common in any TMS implementation: You don't know what you need until you're well into it. Even full business process reviews and pilots will miss something. For those who have purchased a TMS before, they know this and will look for a vendor partner with a proven track record, a modernly designed TMS, and the expert resources to back it all up.

Implementing a TMS is complex, so don't be fooled when vendors (with systems designed 15-20 years ago) claim they can manage today's challenges easily. Only a modern design can address current realities, so be skeptical of claims that seem too good to be true, and remember that the cost of failure dwarfs all other costs. As a first-time TMS buyer, educate yourself on what a modern TMS design can do – and come to the table with high expectations.

If a vendor says they do buy and sell rating, do they do it the way you need it? If they handle post model changes, like changing the carrier, do they show the change at the multi-stop level to give you maximum value?

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