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Accelerate Growth: A Look at How Yield Management Optimizes Operations and Helps Plan for Maximum Profitability

By Ben Murphy

Just how profitable is your company? As with any business, trucking companies must always stay on top of profitability, but *how* is the question. Hence—Yield Management for the Truckload Carrier. In the following paragraphs I will describe what Yield Management is, how you can benefit from it, and how Yield Management compares to the more common approaches to profitability measurement within the full truckload arena.

If you've ever tried to book a flight with a major airline, you've experienced Yield Management; the first time you call the price is one number, you call two days (or two hours for that matter) later and the price has completely changed. You see: based on where that plane is coming from, going to, and how many seats are already booked, they know exactly how much they need to charge in order to hit a target revenue/margin per plane per day for every route that plane will be flying. They're tracking historical demands inbound and outbound of every market they service. So depending on which route, the date, and time you may be flying on, they may not need much—if any revenue.

As it pertains to the Truckload Industry, by definition Yield is the network-based margin per load per day. Now lets take that definition and break it apart. First of all what does *network-based* mean? When determining the Yield of a particular load, we have to look at what the truck did before this load and what will the truck do after this load. For example: did the truck come from a head-haul load to a back-haul and then on to another head-haul, or was it some other variation. Not only are we looking at the prior, current, and subsequent loads, but also all deadhead movements associated with these loads. *Margin* is simply the revenue minus all variable costs (those costs associated with the movement of the load only). Finally, *per day* reflects the fact that while looking at the prior, current, and subsequent loads the time required to move all three loads is taken into consideration.

In summary Yield is made up of four components: Revenue, Cost, Efficiency (Time), and Balance (Network-Based). Yield gives you an objective measure (one number) to guide the independent actions of your entire organization.

"Process Measurement is necessary for Process Improvement which leads to Quality Improvement", or in other words "No one does what the boss doesn't measure". In order to describe the benefits of Yield Management let's discuss a couple of the processes that occur within a trucking company.

One process is that of booking the loads. This is typically handled by a Customer Support Representative (CSR). A CSR has the ability to accept/decline freight which is offered, solicit freight, as well as setting pickup and delivery schedules. Because a Yield Management system calculates the value for every load, one benefit to the CSR would be a report showing the loads moved out of their area sorted by Shipper Name and Origin/Destination pair. Using this report the CSR can quickly see which shippers/lanes are better to accept or decline, who to call first when soliciting rather than just accepting whatever comes on the first call. Because they can see how much time is being spent on the loads, they will be better equipped to set more appropriate pickup and delivery schedules. So not only are they able to solicit better freight, they can increase your throughput by eliminating in-transit delays.

Bid processing/Rate increases: Here the typical approach of a trucking company will be to go after an across the board rate increase. The problem with this approach is that it will often price you right out of the "good" freight and right into the "bad" freight. Now, with yield management, a carrier can review current business for a customer and determine exactly which lanes would require a boost in profitability and why. Most often it's a small percentage of a customer's business that needs help. It may not be that the rate is low, it could be that you're not recouping your contracted accessorial charges, delay at the shipper/consignee, etc...with this information you can show your customers where you need those increases and why.

Have you ever heard the saying "In God we trust, all others we require data"? If you show your customers why you need that rate increase, reduction in delay, or even a change in volume you're more likely to get what you need without sacrificing the good stuff. We call this margin improvement versus across the board rate increases. Those are just a couple examples of how yield management will benefit a truckload carrier.

Now let's compare yield management to some of the more traditional measurements of profitability. Not that your company is this way, but have you ever noticed how the focus at many carriers will change weekly? Last week it was deadhead, this week it's layover, and next week it will be rates.

Let's look at deadhead first. The problem with focusing on deadhead is that this measurement doesn't take into consideration time. You're pushing your people to minimize deadhead and the only way a planner can help is to sit the truck and wait for a closer load. So while your deadhead goes down—so does your utilization of the power unit, which causes an increase in driver turnover. Yield management identifies the trade-off between minimizing deadhead and maximizing utilization.

What are the causes of layovers? Did you send too many trucks into a market, is it just a poor market for out bound volume, or are your CSR's sleeping on the job. So what's the problem with focusing on layover? "Be careful of what you ask for, because you just might get it". It generally falls on the CSR to minimize layover, so we tell them to "book some loads, keep those trucks moving". So rather than looking at quality, they're looking at quantity. When in a pinch, who do they call— the brokers. Now you have loads at 90 cents per mile down to Miami, FL, and oh-by-the-way these loads don't pick up until tomorrow afternoon. And the icing on the cake—those are your customer loads that you should've gotten at $1.90 per mile on. Sometimes it's better to wait on a load or even deadhead to a different market. Yield management will tell you which to do.

What's the problem with focusing only on rates? "You can have too much of a good thing". Just remember it's your fault when all of your trucks end up in no-mans land with nothing to do because you get $2.50 per mile to get there. It's all about Balance. Yield management will identify which lanes at what volumes and rates will produce your highest possible margins.

To summarize, it's not that our traditional measurements are all bad—it's the fact that as humans we're incapable of looking at more than one or two things at a time. We as humans also tend to be subjective in our decision-making. Yield management takes all of our traditional measurements and lumps them into one objective measurement. Not only is yield looking at deadhead, layover, rates, and balance…it doesn't care if you sold this account or not. Yield Management provides one objective measurement to guide the independent actions throughout your entire organization.

More and more truckload carriers are embracing technology to improve efficiency, customer service and profitability. The adoption of dispatch and mobile communications technologies have become standard—which has enabled carriers to collect and use real-time data from operations. How that data is leveraged to gain insight, gauge performance and make measurable decisions will be the key that determines the degree of competitive edge gained from technology investments.

Optimization decision support software is the next logical step for carriers looking to achieve constant data visibility and a more sophisticated level of analysis that the real-time data feed enables. IDSC's experience teaming with customers in this area shows that solutions such as Netwise Enterprise® and Netwise Frontline® can help carriers data-mine for gold and plan for accelerated growth.

Yield management is the foundation upon which the Netwise optimization solutions are engineered.

Know Your Customers

- Identify high volume, poor yield shippers
- Quantify lanes
- Conduct "what if" analysis on new and existing business

Know Your Load Profitability

- Identify low or no-profit freight and how to fix it
- Identify high-profit freight and how to get more of it
- Identify ways to improve network balance and profits

Know Your Rates

- Target, price and win desirable freight
- Compare current prices to market
- Identify pricing problems and adjust prices strategically
- Quick and accurate shipper bid response

Know Your Pitfalls

- Identify and resolve problem freight
- Get drivers home efficiently
- Maximize margin per day

Know Your Growth Potential

- Align the organization to maximize revenue
- Realize continuous profit improvement
- Precise load profitability measurement
- Analyze each business function to maximize profits

Be confident in decision-making and the impact of decisions on long-term growth, company productivity and customer service.

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With over 15 years of transportation experience specializing in optimization solutions for the truckload carrier, Ben is responsible for the tactical management and daily administration of IDSC.

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