2014 State of TMS:
Cost reductions and
emerging trends in adoption

Top supply chain software analysts assess growth in the transportation management systems (TMS) market, highlight emerging trends in adoption, and predict the future of this highly beneficial, yet consistently underused application.

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In its 2012-2017 TMS Global Market Research Study published in 2013, research firm ARC says that transportation management systems (TMS) continue to offer a strong ROI for shippers—namely in the way of lower freight spend. And that trend shows no signs of slowing down any time soon.

ARC says that over 40 percent of respondents felt that if they were forced to give up their TMS and go back to more manual processes for planning and execution, their total freight costs would increase by 5 percent to 10 percent. Twenty-three percent of shippers surveyed felt that their total freight costs not under the control of the TMS would increase by over 10 percent.

According to Steve Banker, ARC’s director of supply chain solutions, TMS achieves these savings based on process enforcement, visibility, analytics, and optimization—with virtually no other supply chain application offering so many different forms of optimization.

“TMS is one of those applications that has good payback,” says Banker. “When a company installs a TMS, the savings expectation is about 8 percent for most industry verticals.” That means that the company that spends $100 million annually on freight can invest, say, $1 million to $2 million in a TMS and can expect to save an average of $8 million in freight costs. “That’s a pretty good return,” says Banker.

Eager to tap into those returns while also gaining visibility over their global supply chains, today’s shippers are exploring their options on the TMS front. In most cases, that means selecting between the traditional, purchase-and-install format or one that resides online in the “cloud” and is accessible to users on a 24/7 basis on the web.

“Cloud has always been very strong in the TMS market, in fact roughly one quarter of revenues in this market are SaaS [Software as a Service] revenues,” says Banker. By definition, cloud computing is the deployment of software on virtualized servers where the TMS runs on multiple different servers as demand increases or decreases, whereas SaaS involves applications that are hosted by a vendor or service provider and then distributed to customers via the web.

Rick Brunson, manager of supply chain technologies for consulting firm Capgemini, also sees more potential ahead for cloud-based TMS, namely due to the lower barriers to entry presented by the online software delivery option.

He says that JDA Software is one of several TMS providers that are helping to drive that trend. “JDA is pushing the cloud for their customers,” says Brunson. “The cloud-based TMS market will continue to grow because it makes things easier for IT departments, which don’t have to maintain and deploy yet another application.”

TMS Defined: Tasked with helping companies reliably, efficiently, and cost effectively move freight from origin to destination, transportation management systems (TMS) represent one of the fastest growing segments of the established enterprise application market. TMS is typically focused on either planning and execution (for carrier-based freight movements) or fleet management (for moves that involve a company’s transportation assets), according to ARC Advisory Group.

TMS trend tracking
In assessing the top TMS providers in the market today, Banker says that both Oracle and SAP had strong sales in 2013, and that
ROI continue to soar

Savings from TMS

Question: As compared to manual processes, what do you believe you save, as a percentage of freight costs, from using a TMS?

- TMS decreases our freight costs by >10%: 23.1%
- TMS decreases our freight costs by 5%-10%: 40.4%
- TMS decreases our freight costs by <10%: 23.1%
- No difference: 9.6%
- Use of TMS increases our freight costs: 3.8%

Source: ARC Advisory Group (arcweb.com to obtain full TMS study)
Both could repeat those winning performances this year. Banker says SAP’s efforts to produce a best-of-breed TMS started paying off with the software’s most recent release.

“About two years ago SAP finally got it right,” says Banker. “By that time, there was a lot of pent-up demand to fulfill.” Since introducing its latest TMS, SAP has grown quickly in the space, says Banker, namely due to that pent-up demand and the fact that it has been hawking its solution to logistics service providers, “where the average selling price is significantly higher than it is for shippers.”

Banker says that SAP’s efforts actually suppressed some of the growth on the cloud side of the TMS market. Despite that sub-trend, Banker says the multi-tenancy capabilities of SaaS—where a single instance of the software runs on a server, handling multiple tenants—make the online variations of TMS software especially attractive for new users.

“Cloud continues to grow, but its growth has slowed somewhat over previous years,” says Banker. “Still, there are certain benefits associated with multi-tenancy and the associated networks that you can’t get with traditional solutions.”

Visibility is clearly one of those benefits. Focused on streamlining and gaining better visibility over their global supply chains, many firms are turning to TMS to help them achieve those goals. “We’re definitely seeing more demand for global visibility,” says Brunson. “Shippers want to know where everything is located across the entire supply chain at any given point.”

Right now, companies want improved visibility of outbound domestic shipping, although Brunson says that more and more are requesting enhanced inbound visibility across all modes of transportation. The latter will likely spur demand for a TMS that can handle multi-modal processes with ease.

“Going forward,” says Brunson, “we’ll start to see more inbound freight visibility and the routing of that freight across the supply chain via differ-
ent modes of transportation—motor carrier, rail, ship.”

When asked whether TMS vendors are stepping up to the plate on the global multi-modal front, Brunson says it’s already happening “to a degree,” but notes that as more shippers move in that direction an increasing number of providers will probably jump into the fray.

“There aren’t a lot of shippers utilizing their TMS for those functions right now,” says Brunson. “As more clients start moving in this direction, vendors will have to come up with additional features that no one is really thinking about right now.”

**Measuring the market**

Transportation management systems may have been around for a while, but that doesn’t mean they are a shoe-in for companies that want to gain better controls over their transportation operations.

According to the Logistics Management 2013 Technology Usage Study, just 34 percent of respondents are currently using TMS. Of the 33 percent of shippers that were planning to buy supply chain software over the coming 12 months, 41 percent planned to acquire TMS.

Dwight Klappich, research vice president at Gartner, says that his results show that roughly 50 percent of firms with $100 million+ in revenues are currently using a TMS, while only about 10 percent of those in the $25 million to $100 million range are doing so.

Of those current TMS owners, just 25 percent say they are “fully utilizing” their systems. “There are many shippers that are using pieces and parts of their transportation systems and aren’t realizing the full benefits of their investments,” says Klappich. “Between the low adoption rates for TMS and the fact that many users aren’t fully optimizing their systems, Klappich says vendors will have their work cut out for them during the year ahead.

“Vendors basically went after the big fish and abandoned the rest of the market,” Klappich points out. “That’s why companies like MercuryGate, which is focused on mid-tier companies, are growing like weeds. Next to Oracle, MercuryGate is one of the fastest-growing TMS companies right now.”

**Looking to the future**

When Simon Ellis, practice director at research and consulting firm IDC Manufacturing Insights, looks at the TMS market, he sees a number of key trends being driven by large vendors like SAP and Oracle. Fleet management continues to be a strong focus for both providers, says Ellis, with both adding capabilities to attract third-party logistics providers (3PLs) that have traditionally been using homegrown transportation management systems.

“We’re seeing 3PLs move away from that strategy and start using more off-the-shelf packaged TMS,” says Ellis. “As part of that push, software vendors are adding fleet management to make their products more appealing.”

Ellis says that TMS providers are watching global supply chain trends closely and coming up with ways to incorporate global trade management capabilities into their solutions. “Inevitably, as manufacturers and retailers look at sourcing products from overseas,” he explains, “the ability to manage customs and regulations and coordinate across multiple carriers becomes very important.”

Whether those global capabilities fall under the TMS header—or in an adjacent category—Ellis says that shippers can expect to see significant developments in that realm in the coming months. “Up until now, the tools have been deficient in this area because manufacturers and retailers weren’t asking for them,” says Ellis. “That is changing.”

From their TMS, retailers are also demanding improved omni-channel visibility. Two other opportunity areas for vendors within the supply chain space include distributed order management (tools necessary to manage, monitor, and optimize cross-channel order management) and the placement of warehouse-like solutions in retail stores.

“Right now, omni-channel is the largest supply chain opportunity that’s out there in the TMS space,” says Banker. “It’s an interesting niche that’s worth paying attention to and that we’ll be watching pretty carefully in 2014.”

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—Rick Brunson, manager of supply chain technologies, Capgemini