

Transportation Spend Management Mini-Series

Latest Release: Carrier Analysis and Negotiation



Episode #013 - the Second in a Special Five-Part Podcast Mini-Series

PODCAST SCRIPT

MODERATOR:

The Oracle Speaks is brought to you by enVista, a leading enterprise cost management consulting firm focused on eliminating waste and reducing cost in supply chains from source to consumption. Visit enVista at www.envistacorp.com.

ISAAC EDWARDS:

My name is Isaac Edwards; I am the Director of Supply Chain for a US based Sporting Goods Retailer. If you listened to my last conversation with the Oracle then you know I have recently been given the responsibility to direct and lead our transportation organization. Over the last six weeks I have been working with our transportation team to understand our current transportation spend by mode, lane and carrier. The Oracle commonly refers to this as Transportation "Spend Diagram." It honestly has been a challenge. After pulling data from three disparate solutions, and embarrassingly having to ask our carriers for key data, like total weight by lane, freight class and accessorial charges. Not to mention we were missing carrier contract tariffs. I believe we now have a comprehensive understanding of our transportation cost. More importantly this exercise has proved how much room we have for continuous improvement. We have significant opportunities to improve our transportation data quality, the timeliness of key transportation data and controls. I have spoken to the Oracle and he has provided me a Transportation best practice list that I can follow. To name a few we need to be monitoring service levels for both our Parcel and Non Parcel carriers, contract maintenance, establishing quarterly or semi-annual quality business reviews (QBRs), cost allocation by product category and business unit and basic invoice audit. For company that spends over \$60M a year in just outbound freight you would think we would have better controls and process in place. One of the areas that the Oracle discussed was contract compliance and contract rates. It appears that we have contract and tariffs that have expired and in some cases it has been 3 years since we actually evaluated our rates. I realize the Oracle wants me to complete a Freight Term Optimization (FTO) analysis but I think there is lowing hanging fruit with our current carrier agreements. It is time to call the Oracle and get his perspective on how to effectively negotiate new carrier agreements.

SOUND:

Ring Ring

ORACLE:

Oracle Speaking

ISAAC EDWARDS:

Oracle it is Isaac Edwards do you have a few minutes to discuss where we are with the FTO analysis and I want to run a tactical idea by you as well.

ORACLE:

Absolutely, let's start with the FTO analysis. How is it coming along?

ISAAC EDWARDS:

As you can imagine it has been painful, frustrating but at the same time rewarding. Based upon the templates and models that you sent me we now have an understanding of our inbound transportation but we also took the liberty to capture the relevant outbound transportation data. I am confident that we now know where, who, why and how much we are spending on each carrier and lane. For our parcel we completed a zone density map as well so we know the density per parcel by one pound increment.

ORACLE:

Great, but zone density maps are less relevant to Parcel than FTL and LTL. A more appropriate method is to analyze your spend by service level. This is known as detailed package distribution. We spoke over four weeks ago, so it is fair to say it has taken your team 4 weeks to pull all this data together?

ISAAC EDWARDS:

I am embarrassed to admit this but yes it took us 4 weeks with two full time equivalents tracking and gathering all the relevant data.

ORACLE:

Isaac don't be hard on yourself. This is not uncommon for companies like yours. In the future I want you to be able to pull any transportation relevant data within 3 seconds.

ISAAC EDWARDS:

Oracle, have you gone off your rocker!

ORACLE:

No, not at all. Best practice is that you have a centralized data warehouse with all relevant transportation data, reporting, pre-built data cubes and ad hoc query capabilities. For example you want to know how much you spent by lane, by carrier and you want to know how the cost was allocated by product category by merchandise planner for a given time frame....3 seconds and you have the answer. You want to know which merchandise planners and buyers are expediting freight.... 3 seconds, you want to know the service level failures for both parcel ground and air shipments.... 3 seconds.....

ISAAC EDWARDS:

Ok, you have obviously done this for another client.

ORACLE:

Maybe a few, but the point is that you can do it as well, the transportation technology platforms exist. Anyway we need to crawl, walk and then run. You mentioned that you have a short term idea that you want to run by me.

ISAAC EDWARDS:

Yes, during this exercise it became painfully apparent that we have not been managing our current carrier contracts and agreements. I want to evaluate our current contracts and renegotiate them at the same time we are finalizing our inbound transportation strategy.

ORACLE:

I think it is a great idea. However, today you use your own private fleet for outbound for store deliveries and one parcel carrier for direct to consumer, correct?

ISAAC EDWARDS:

Yes

ORACLE:

I suggest that you evaluate your own private fleet as part of the FTO and determine if a dedicated carrier vs. Private Fleet is the best solution from a service and cost perspective. In addition you are going to want to include potential back-haul and certain inbound lanes as part of the FTO analysis. So I would suggest you focus your renegotiations with your current parcel carrier.

ISAAC EDWARDS:

Your right, now that I think about it makes more sense to think of the FTO analysis as a continuous dynamic transportation loop then a static and separate inbound and outbound lane analysis.

ORACLE:

You got it, and Isaac remembers it is not a right or wrong conversation; it is a discussion of what works vs. what does not work.

ISAAC EDWARDS:

Alright you got me, so where to begin with our Parcel Negotiations? It has been three years since we have sat down with our carrier. As you know our internet business has tripled in the last three years.

ORACLE:

First you need to make a choice: one do you tackle this on your own or two do you ask for assistance. Based upon the preliminary spend diagram you sent me your parcel spend is close to \$15M per year.

ISAAC EDWARDS:

That is correct, so the savings could be significant. Since I have taken over this position I now have 3rd Party firms calling me all of the time looking to a percentage of the savings if they complete the negotiations.

ORACLE:

I understand. However do you have the expertise and time to collect the data, complete the package characteristics analysis, issue an RFP, analyze the offers and negotiate the contracts?

ISAAC EDWARDS:

No.

ORACLE:

Ok, so I suggest that you find a transportation consulting firm that has a proven methodology to support you with the not only your Parcel analysis but also a firm that has experience with all modes. You are looking for a firm that understands how to negotiate with the carriers, but more importantly a firm that has deep domain expertise in transportation and how the carriers cost their freight. Anyone can beat up a carrier on price, you must strike a balance between price, service and the carrier relationship. I think it is important that you recognize the value a third party consulting firm can provide while forming a business relationship that is mutually rewarding for both parties. The right third party consultant for your company should be able to accommodate a flexible fee structure model that works for both parties.

ISAAC EDWARDS:

Ok, so how do I select a firm that can help us. When I do a simple Google search on Parcel Contract Negotiations I get a list of firms telling me they can save us 10% to 25%. Who do I believe?

ORACLE:

I would make a few phone calls to your local WERC and CSCMP organizations, plus there are a number of trade magazines like Parcel Magazine, Inbound Logistics, Supply Chain Executive that can help you. The key is finding a firm that has a proven methodology, the analytical modeling tools, and brings integrity to the negotiation process. It is also important that you and the firm that you pick understand the following:

- Your operational, technological, and administrative requirements and constraints of your transportation functions.
- The balance of power in your carrier relationship(s), and know how to optimize your position prior to engaging with the carrier.
- Manage your project; don't let it manage you. Remember that every day that goes by has a cost in the form of unrealized savings. Hence you want a firm that understands how to project manager.
- The quality of the data is key. Bad data equals bad analytics, and bad analytics equals poor outcomes.
- The Project should be based on quantitative analytics. I believe you want to evaluate your parcel freight in one pound increments. The more granular the analysis the better. Ignore cost drivers at your peril.
- Analysis and strategy must be built around your shipping metrics
- The details matter. Analyzing the impact of accessorial, surcharges, general rate increases, guaranteed service refunds are key to understanding your overall costs.
- Know what is available in the marketplace (note: few individual shippers have the ability to obtain this information on their own)
- Don't ignore the revenue tiers associated with discounts, rebates, (no matter what the carrier tells you)
- Monitor the implementation and execution of the contracts and ensure compliance.

ISAAC EDWARDS:

Thanks this is great information; as always you have given me a lot to think about and information that I can use to drive additional costs reduction within our company.

ORACLE:

Isaac, it is my pleasure and if you need help with identifying qualified transportation consulting firms please feel free to call me.

ISAAC EDWARDS;

Don't miss the next podcast when I speak to Oracle about the pro's and con's regarding outsourcing carrier invoice and audit and payment.



For More Information, Please Visit:

www.envistacorp.com, or call 877.684.7700.