


Unknown Unknowns

Parcel Consultants unpack and repack the complicated process of agreement negotiation.

Before deregulation, bar coding, electronic billing, non-disclosure agreements, personal computers and the Internet – to name just a few – parcel negotiation was far less complex. However, in today's environment, it is your corporate obligation to navigate this complex process, to understand the tools that can effectively maximize savings, to learn how to secure a favorable agreement, and how a parcel consulting firm can successfully augment this process with tools that are not likely available in-house.



Time and time again when we approach a prospect or client to help negotiate their parcel agreement, two of their main concerns are: 1) "This is what my boss hired me to do." And 2) "If I need an outside consultant to help me with this, why does my boss need me?" These are certainly valid concerns and, to a certain extent, they're true. However, there are many reasons to look to a parcel consulting firm to walk you through the steps and help unravel agreement negotiation – not the least of which is to **maximize your savings**. One way to look at this is to paraphrase a quote from Donald Rumsfeld, the former US Secretary of Defense. He said, "As we know, there are known knowns; there are things we know

we know. We also know there are known unknowns; that is to say, we know there are some things we do not know. But there are also unknown unknowns – the ones we don't know we don't know." The "ones we don't know we don't know" are oftentimes some of the most salient and important factors in successfully negotiating a new parcel agreement.

So, how can a parcel consultant help maximize your savings when renegotiating your agreement? On the surface, this question seems simple, with the key being the unknown unknowns. But in reality, this is a fairly complex question with a number of dimensions.



To start, let's frame the key questions: What can a parcel consultant bring to the table that a smart, dedicated corporate senior logistics and transportation professional cannot? That's pretty simple: You know what you know and you probably have a good idea of what you don't know – and you can leverage both.

Now let's think about that from another angle: What competitive advantage can a smart senior logistics and transportation professional bring to the table that can negate or neutralize the dedicated team and the tools

the parcel carriers have in place? And then from even another angle: What competitive advantage can a smart senior logistics and transportation professional bring to the table that can negate or neutralize a parcel consultant's experience, visibility and insight into the unknown unknowns, coupled with time-tested analytics?

In order to answer those questions, we really need to understand what you need to know in order to effectively negotiate your agreement in today's complex environment.

We also need to review how important this process is, and how much you can truly save by understanding the process (or lose by not understanding it), and be able to effectively articulate how complex it actually is, the cost savings that are potentially involved in executing a successful negotiation process, and how important understanding the unknown unknowns are.

The first criterion in parcel agreement negotiation is **industry knowledge**. It's somewhat a given in today's environment, and it's fair to say that if you're in the job, you most likely have a background in transportation and distribution. If you find yourself in the position with little or no experience in this area, don't fool yourself and think you can get up to speed in a short time – no matter how smart you are. Get help or you're going to have a costly education.

The key here is to ask if transportation and logistics are your sole focus, or do you have the core knowledge of someone whose sole focus it is? How many agreements have you negotiated in the last 12 months? How many different parcel agreements have you seen? Do you have analysts on your staff who have worked as pricing analysts for one or more of

the carriers? Do you have time to focus on all the industry trends and are you up-to-date on what's going on in the industry? Are you on Morgan Stanley's distribution list for their notes

to investors on the parcel carriers? Do you go to the Parcel Shipper and Distribution Forum? How many industry experts do you know? How many carrier reps do you have close relationships with and whom you can ask a complex question of and get an unbiased answer instead of "sales speak"?



The second set of criteria is **analytics**. Typically, the primary role of a logistics and distribution professional is to make certain that products get to their intended destination and to maximize efficiencies. Time spent developing complex models that replicate carriers' pricing conventions is time that could be better spent on operational issues. Outsourcing this function to a consultant who has already developed these tools is a more efficient use of assets, and produces a higher ROI. **While we have seen some complex analytics at prospects' and clients' businesses, most companies today do not have the analytical tools and the methodology that a parcel consultant uses. This is probably one**

of the most important reasons to hire a consultant, since obtaining and properly analyzing the data is so imperative in today's negotiating environment. Don't fool yourself here. The carriers have large staffs of dedicated analysts with finance and engineering backgrounds. They're sitting in Atlanta, Memphis, and Pittsburgh, using powerful and complex computer models to develop your agreement, and they are not in the business of losing money! They know exactly how important these engagements are, and have dedicated vast amounts of resources in order to ensure they are making the right decisions Why shouldn't you?

- How do you analyze two agreements side by side?
- Do you develop a baseline?
- Are all the factors in pricing taken into account in your analysis?
- Do you look at accessorials, surcharges, services fees, and dimensional weight issues?
- What's the rule of thumb you would use to quickly identify if one or more of your accessorials is out of line with your total spend?
- Can you grow your business by any factor in your analysis and see the changes flow through the whole analysis?

- Can you do sensitivity analyses and "what-if" scenarios in your analysis?
- If you're not on e-bill, are you getting the reports you need now to perform a thorough analysis?
- If not, do you know what data to ask for?
- Have you ever seen how a carrier does its analysis?
- Do you know what data to give a prospective bidder who has never had your business, in order for them to price your business accordingly?
- What tools do you use to make and support your decision?

Analytics and analytical tools are the inflection point in the argument. Yes, some companies might have large transportation groups and ex-carrier employees and consultants on their staffs, and they might have the tools developed and in place to do an adequate job – but it's rare. And even when they do, they certainly can't compete with the next two criteria.

The first is benchmarking. It's absolutely critical, and is the key differentiator. This is the unknown unknown. You will never have the visibility in the marketplace on a national and international level that a reputable,

experienced consulting firm has. Visibility is key, and a good consultant will analyze your data and help you craft a negotiation strategy based on the characteristics of your packages and what is available in the marketplace today. If you're only negotiating every three years and you are not plugged in to the industry, you're already at a disadvantage. Even if you are plugged in, but you cannot benchmark yourself against similar companies with similar spend, you are at a serious disadvantage, because you only know what you know.

The final criterion is the negotiation process. While most people believe they are good negotiators, this may or may not be that

case. The negotiation process is a complex endeavor with numerous components of its own that include developing a negotiation strategy, developing and managing an RFQ, analyzing responses, and establishing a second or even third negotiation strategy if warranted. This part of the process is more than just sitting down with your rep and saying, "I want 10 percent off this Service Level in this weight break." A consultant adds value in this area by plain old-fashioned experience. A good parcel consultant will be able to coach you through the process and identify key issues before they happen, because he or she has done it so many times. The key differentiators here are visibility, insight and process knowledge.

Successfully renegotiating your parcel agreements is a complex endeavor. It's also an endeavor that could be very costly to you and your company if it is not executed correctly. While it's clear that a typical logistics and transportation professional in a corporation today has some, if not all, of the skills required to successfully execute this process, it's also clear that he or she probably does not have access to all the tools, or possesses the task-specific experience, a dedicated parcel consultant brings to the table.

Key Takeaways

When you're building your business case to support the use of a consultant to help renegotiate your agreements, the key takeaways should be: What competitive advantage can I bring to the process? Do I have the industry insight required or should I rely on a dedicated professional who does this day in and day out? Do I have complex analytical tools available and the qualified resources to successfully manage this process and maximize shareholder value by negotiating the best deal possible? Can I successfully benchmark where I am today, and where I should be vis-à-vis my industry peers, and how can I gain access to what I don't know? Finally, do I have the time, resources, experience and insight to properly execute the renegotiation process, and do I have the tools developed to make and support my decision?

In almost all cases, the answer to all of the above is "no." Enlisting the services of a qualified parcel consultant can be a valuable allocation of resources and can help to minimize your transportation costs – giving visibility to the unknown unknowns.

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