Analyst Insight

Aberdeen Group
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Transportation Contract Management: Gaining Visibility and Control Over Spend

As highlighted in the February 2010 Aberdeen study, *Transportation Procurement and Payment: Gain Control over Spend*, transportation contract management is growing in both importance and scale as more companies (about 60%) have expanded or have plans to expand the global transportation spend they have under contract. In response to this trend, there is an increased interest in outsourcing models, leveraging third party providers, to centralize, integrate, and expand contractual freight spend. This document will explore the benefits and challenges common to Transportation Contract Management outsourcing models and examine the performance results across companies of varying size and maturity.

Analyst Insight

Aberdeen's Insights provide the analyst perspective of the research as drawn from an aggregated view of the research surveys, interviews, and data analysis

Outsourced Transportation Contract Management Grows in Relevance and Adoption

Our February study, *Transportation Procurement and Payment: Gain Control over Spend,* benchmarked over 200 companies and continues to underscore that rising freight costs (50%), and market volatility (43%) are the top two **external pressures** ranked by transportation executives. In addition, firms are placing **internal pressure** on logistics executives to control transportation spend. With such cost-containment pressures, our findings show that the greatest opportunity for savings lies in the fundamentals: understanding the unique shipping profile of your company, analyzing and benchmarking carrier spending on a central visibility platform, and aligning global contracts and their carrier mix at a global level. The focus of this document is on companies that have looked beyond their internal capabilities and have successfully partnered with a third party Logistics Service Provider or a Logistics Information Software Service Provider (LSP) to enhance their processes. The research findings and case studies presented in this Analyst Insight underscore the value and growing relevance that third party logistics service providers can play in expanding contractual spend by enhancing visibility to global spend data through integrating and automating the selection and control of transportation under contract.

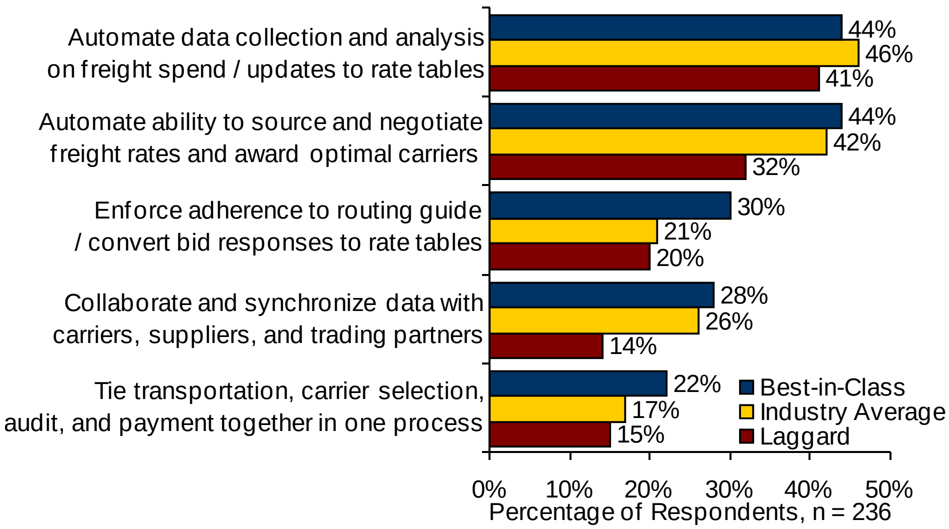
Insight Focus

The focus of this insight is on companies that have outsourced various components of their Transportation Spend Management (TSM), to a third party Logistics Service Provider or Logistics Information Software Service Provider (LSP).

Integration and Automation: Closing the Loop on Transportation Spend

When asked about their capabilities to respond to both the **external market pressures** and/or the **internal or top management pressures** around freight spend, most companies are planning to attack individual pieces of the spend management process (Figure 1).

Figure 1: Strategic Actions in Transportation Spend Management



Source: Aberdeen Group, February 2010

Automation and integration are key characteristics allowing data to flow from step to step in a repeatable processes across the strategic actions depicted in Figure 1. The linkages from step to step and the eventual feeding of the final step into a repeat of the first step (in the next planning cycle) is what Aberdeen has described as "the closed loop process" (*Transportation Procurement and Payment: Gain Control over Spend*).

Interestingly, most companies are in a situation where they have automated much of their audit and payment processes, but have no similar levels of automation in procurement. Industry Average and Laggard companies are 2.5-times to three-times more likely to have manual processes in place, or to have automated one (audit / payment or procurement), but not both of the key areas of transportation spend management. This is often due to the fact that for many companies, transportation procurement is not centralized. It is often performed at the local or department level based on legacy carrier relationships, and managed through the use of rudimentary tools like spreadsheets. Audit and payment processes are more likely to have at least a base level of automation due to the fairly widespread use of Electronic Invoice Presentment and Payment (EIPP) technology, as well as with the widespread use of managed services providers in this area. Even for larger companies this information is often kept in local silos and is not shared to leverage across global volumes and shipment profiles.

Utilizing a centralized data platform to improve collaboration with carriers can increase savings and improves contract rates. From the February study, less than 10% of the Best-in-Class are leveraging spend data visibility and few of them are sharing data with external partners, especially carriers. Sharing critical data can increase the collaboration during the bidding process and provide carriers with the opportunity to suggest alternative routes or negotiate rate options which lower costs for both parties. The case studies

Best-in-Class Enterprises:

- √ Are 1.3-times more likely than Industry Average and Laggard companies combined to be pressured by executives to improve transportation spend control
- √ Achieve carrier SLA compliance levels 1.64-times than that of Laggards
- √ Are 1.85-times as likely as Industry Average, and 4.3-times as likely as Laggards to have a centralized spend management platform in place capable of multi-language and multi-currency
- √ Achieved a 22% higher percentage level of carriers that are compliant with contractual cost

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presented in this document underscore the value of third party service providers in enhancing visibility to spend data and to integrating and automating controls over transportation spend.

Case in Point: Large Gaming Manufacturer Reduces Annual Freight by Double Digits Through TSM Partnership

One of the largest gaming manufacturers in the world, a publicly traded company, creates and services a variety of technologically advanced gaming products and systems that are found in more than 600 gaming sites across the world. Their products include an installed base of over 400,000 slot machines complemented by player tracking cards and systems, and casino management systems. The company posted sales of over $850 million last year through their operations in the US and globally.

"We are very pleased that the collaboration with the TSM company has allowed us to deliver double digit annual transportation savings (net of all costs and fees) and address our three primary objectives of the company at the same time… So far, the consolidation of volumes/carriers and the contract management tool has gone a long ways toward cutting our transportation rates. But this is just the beginning"

~ VP of Procurement for a Large Global Gaming Manufacturer

About three years ago the company's overall transportation operations were decentralized and fragmented. The company was focused on better understanding its true detailed cost structure and applying a methodical approach to the transportation spend management process. Part of the difficulty was the lack of visibility and shared global data. They had no way to capture/analyze costs on a shipment-by-shipment basis. Furthermore, shipment tendering and contract negotiation was being done on a local basis, with no global bid process taking place. As such, there was no visibility into detailed spend data even though the company's transportation spend was $7 million to $8 million aggregated over both finished items outbound, and materials and parts inbound.

In 2007, the VP of procurement for the company decided to put out several Requests for Quotation (RFQ) with several Freight Audit and Transportation Spend Management (TSM) logistics services companies.

Over 80% of the overall volume was in outbound small package airfreight and LTL so the selected TSM was given historical data and invoices to conduct a detailed transportation mode and lane analysis to evaluate rates and service against competitive and negotiated contracts.

Based on the initial proposal the following three company goals were put in place to 1) gain visibility to spend, 2) realign and consolidate carriers and volume across mode's and 3) perform continuous rate and volume audits to increase compliance to contract cost and service metrics. "We are very pleased that the collaboration with the TSM company has allowed us to deliver double digit annual transportation savings (net of all costs and fees) and address our three primary objectives of the company at the same time", says the VP of Procurement.

Under the old system, invoices were paid and audits were on a spot basis and manual. Under the new transportation audit and spend platform leveraged by the TSM all shipment volumes and invoices are collected via electronic means and are audited automatically. The new automated matching process is designed to instill compliance to contractual rates and agreements and will itemize all base transportation and accessorial costs so that credits from the carriers can be processed for any and all mischarges.

The collected spend data and analysis tools include detailed metrics by supplier, carrier, lane, shipment and mode. Now the company leverages the system for Strategic Bid Allocation-- the ability to evaluate bid responses and determine which contracts to award to which carriers. One carrier may be slightly less expensive in certain lanes than others, but it may make more sense to award those lanes to a larger carrier to meet a volume breakpoint that is required to achieve lower rates across the board. Use of such capabilities allowed the company to consolidate from 12 carriers to 5 or 6 across parcel and LTL shipments and to collect ongoing data to feed each subsequent contract renewal cycle. The whole consolidation and implementation process was quick and was completed within 4-5 months of rollout.

The company is now expanding the level of global visibility from the same TSM to allow the company employees across the entire network to react more quickly to unexpected delays in transit and minimize shipping disruptions. "So far, the consolidation of volumes/carriers and the contract management tool has gone a long ways toward cutting our transportation rates," the VP says. "But this is just the beginning."

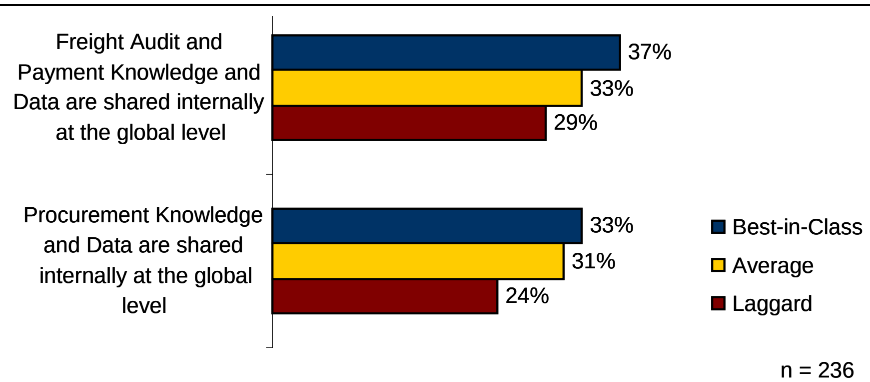
Key Benefits Realized when Improving Transportation Procurement or Payment

- √ 66% Negotiated lower rates
- √ 56% Reduced or contained freight costs
- √ 47% Improved staff productivity
- √ 45% Improved accuracy of freight budgets
- √ 40% Reduced freight invoice exceptions found in the audit process

Centralized Transportation Visibility, Audit and Spend Management Systems

It is the level of sharing of and visibility to detailed knowledge and its ease of integration into a centrally shared data repository that helps enterprises breakdown the silos between departments and regions (Figure 2). This capability coupled with an overall transportation selection and contract management process allows top companies to deliver higher levels of performance in carrier contractual compliance and transportation cost reduction.

Figure 2: Savings Start With Data Visibility and Access



Source: Aberdeen Group, February 2010

"We really had no centralized visibility to our transportation spend. This was the first step we needed to make in order to start the process of bringing our spend under control. Without the visibility, everything else we did would have been guess work."

~ Chris Cavin, Director of Transportation, RockTenn

From the research, less than a third of Industry Average and Laggard companies are leveraging spend data visibility at a centralized or global level.

These facts illustrate the value of incorporating a global view. Working to get control of transportation spend data is the end-goal, however it's more important to get visibility and organizational control across the entire organization and remove the silos. Only 24% of Laggards have data visibility at a global level, and only 6% can share that data with external partners. Combining data into a global view will greatly increase spend analysis value and sharing with external partners will drive better performance.

The gap between the Best-in-Class and Laggards focuses on the ability to move beyond traditional localized silos and to incorporate a global view. The next case study further illustrates this point.

Case in Point: Large Worldwide Manufacturer of Motion and Control Technologies Moves to a Centralized Transportation Visibility, Audit and Spend Management System

Three years ago a $10 billion worldwide manufacturer of motion and control technologies decided to gain visibility to its freight spend. The company, with eight operating groups and 60 divisions has a transportation spend of approximately $300 million annually serving over 600,000 customers.

At the time that the initiative started in 2007, the European Transportation Unit was decentralized and was managed manually at a local level across 120 regional points. In an effort to centralize visibility, data, and activities the European Freight Manager initiated a project to partner with a Transportation Spend Management (TSM) company with Software as a Service (SAAS) solution. The goal was to find a partner capable of providing a centralized data collection, auditing and spend-analytics platform for the entire $100 million in transportation spend within the European market.

After preparing a RFQ, a best of breed third party TSM company was selected from a short list of three providers. Moving away from a fragmented, manual, and internal but localized freight audit process the newly selected transportation management company (TSM) was engaged to:

1. Automate, centralize, and audit ongoing spend data across each region
2. Centralize agreements and insure adherence to contracts, and
3. Provide visibility/analytics for periodic carrier selection/optimization process

Carrier by carrier the company consolidated volumes from the top 50 carriers unto the new centralized platform hosted by the TSM. For each shipment and invoice the mechanics were put in place to gather the all the relevant data and automate their electronic transmission to a central repository. Standard EDI protocols were utilized wherever possible and in

"We can now analyze and optimize freight volume by mode and lane and by employing electronic payments and process automation to streamline and accelerate the freight audit and central payment processes….We have been able to align contracts and carrier volumes across both regional and/or global levels and have reduced operating costs, and have improved visibility, control, and efficiency to provide the foundation for increased profits."

~ European Freight Manager, Large Motion/Controls Manufacturer some cases the carriers would send pdf files of the daily invoices which were scanned and placed into the central spend database.

The top 50 carriers represent about 90% of the total spend and the conversion process not only automated the detailed collection of freight spend data across all modes and lanes but also standardized the free carrier agreements and contracts. Each and every invoice is audited electronically and results are fed to the company which in turns utilizes it's internal finance and payments systems to make the actual freight payments.

The new centralized data platform allows visibility to all transportation volumes by region across the eight operating groups and 60 divisions across country borders whether ocean, air, parcel, LTL or truckload.

A major advantage that the TSM brings to the partnership is the breath of experience/knowledge, both regional and global, within the overall transportation market (the carriers and cross country requirements etc.). "We can now analyze and optimize freight volume by mode and lane and by employing electronic payments and process automation to streamline and accelerate the freight audit and central payment processes we have seen a significant advantage," says the European Freight Manager. "We have been able to align contracts and carrier volumes across both regional and/or global levels and have reduced operating costs, and have improved visibility, control, and efficiency to provide the foundation for increased profits."

Based on the track record at similar clients in the European market the actual rollout and full ramp up could have been accomplished in anywhere from two to six months. However, the company decided to ramp up on a carrier by carrier limited basis and to involve all the regions and stake holders.

Despite a resulting slow ramp-up to full savings of over two years, the partnership with the freight management/audit service has paid off. Overall, the company is on track to save 5% to 10% on the annual transportation cost on a conservative basis. Future plans for the program are to:

1. Realign carriers and contracts as part of an ongoing strategic total buy program across divisions
2. Build alliances with internal finance and IT groups on expanded global deployments
3. Ensure contract effectiveness and compliance
4. Move to a proactive tendering and self invoicing model over time

Recommendations for Actions

As in the case studies, companies that lack the manpower, focus, or systems to build a central database and automate and integrate contract management internally should consider bringing in a third party to assist.

Factors to consider for enterprises when evaluating a transportation contract management solution are:

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- **Ensure that costs are lower by utilizing SaaS models.** Upfront costs may be avoided as many LSPs or TSMs offer the supplemental systems capabilities in both hosted and subscription based SaaS models. Additionally in many cases, the outsource investment and cost is centered around a no-risk guarantee since most logistics service providers are willing to work on a contingent basis for thought leadership - based on a percent or shared savings approach.
- **Ensure that time to deployment is low**. Because the LSPs or TSMs are already familiar with the regional and global carriers and freight rates, and because they have systems in place to receive detailed ship level spend and contract data electronically, they can ramp-up and deploy very rapidly.
- **Ensure management buy-in to the outsourcing model.** Overall there is an increased focus and market appetite for carrier collaboration and managed services opportunities. Our October 2009 study (*Integrated Transportation Management: Improve Responsiveness with Real-Time Control of Execution*) indicated that most shippers (69%) are interested in considering third parties to advance and promote thought leadership across their transportation functions. Additionally about 30% to 40% of companies from the same October study are open to the concept of seeking management expertise/services in optimization or even execution areas of their global transportation processes.

In closing, expect 2010 to be another year of change spurred on by the increasing global reach of transportation. What is for certain, however, is the pressure that transportation executives will be under to stabilize the volatility and reduce shipping expenses. This document explains how companies can utilize outsourcing to acquire and augment their transportation needs and increase company profits. Prepare for the unexpected, look at all the options, go back to the fundamentals, gain visibility to spend, and consider the options. The savings are there for the taking.

For more information on this or other research topics, please visit www.aberdeen.com.

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Related Research	
Transportation Procurement and Payment: Gain Control over Spend , February 2010	*The International Transportation Management Benchmark Report*, October 2007
No Excuses! Why Optimizing Transportation Management is Within the Reach of Every Company, July 2008	*Integrated Transportation Management—How Best-in-Class Companies View the World Differently*, June 2007
Achieving Closed-Loop Transportation Spend Management, January 2008	*Winning Strategies for Transportation Procurement & Payment*, February 2007

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