

Spend Management: A Holistic Approach to Managing and Measuring Transportation Spend

Companies today face a challenging transportation environment fraught with diminishing capacity, volatile diesel prices and senior management demands for tighter cost controls and fiscal responsibility. But by taking a Closed-loop Spend Management approach to transportation, Supply Chain executives have the potential to deliver significant savings to the bottom line. Here's how it works.

Industry case studies, analyst reports and our own experience suggest that best-in-class companies can achieve annual freight bill savings of up to 20 percent by employing more sophisticated Transportation Spend Management that connects the procurement-through-payment processes and both measures and benchmarks the results. The AberdeenGroup calls this connection "Closed-loop Spend Management."

The concept of Closed-loop Spend Management is simple – it connects all financial processes within transportation in a continuous business process. The overall system includes five component business processes: benchmarking and sourcing, procuring rates and carriers, planning shipments and executing those plans, settling with carriers, and analyzing performance and improving the results. With each component, results are optimized by employing the data that result from the prior business process. Each of the components is explained below.

Community Benchmarking

Community benchmarking employs network information. The LeanLogistics On-Demand TMS® supports over 25,000 users, 5,000 carriers and 4,000 suppliers processing over 100,000 shipments per week and nearly \$5 billion in annual transportation expense. These data provide context to evaluate your rates and performance. LeanLogistics leverages this critical mass of data to benchmark your environment and help you determine in advance the lane rates that are too expensive and carriers' performance that was below your standards. We call this service "Path-to-Value Benchmarking."

First, we identify your underperforming lanes by analyzing your compliance to your Route Guides and benchmarking both your freight rates and service levels against best-in-class network averages. The conclusion is identification of "bleeder" lanes and underperforming carriers with an associated opportunity cost. We then examine our network-wide available carrier capacity and align that capacity with your shipment history to create an environment that is beneficial for you and for the carriers. We identify new carriers who are not part of your network, but who have complimentary service lanes, to include in your bid event.

This supplements your carrier base with the already-qualified and holistic carrier base within On-Demand TMS®. The results improve the carriers' utilization while reducing your rates and improving your service.

Procuring Carriers

The analyses performed in the benchmarking process become the basis for an action plan, determining which carriers and circumstances must be addressed. LeanLogistics issues specific lane bids on your behalf, solicits the carriers, collects the responses, evaluates the results, then allows you to select which carriers you want to contract with. Once carriers are selected, rates and agreements are loaded automatically into On-Demand TMS® on your behalf.

By performing this evaluation and solicitation quarterly, no geography is allowed to get substantially out-of-tolerance. Improvements are continuous, and rates and service levels remain aligned with the market. In addition, you are introduced to new carriers who expand your network, reduce its cost and improve its performance. You also procure and optimize online, develop incentive-based contracts and standardize your rate structures.

Planning and Execution

On-Demand TMS® provides complete capabilities that allow you to optimize your daily transportation plans. It includes the proper carrier selection to maximize service and minimize cost, and it observes contracted volumes within lanes to ensure you honor your commitments to carriers. You can manage capacity by allocating in accordance with volume incentive contracts, either observing your fixed route guides or allowing On-Demand TMS® Optimization to build an automated routing guide for each load with a carrier cascade list in service- or cost-ranking sequence.

Negotiating the best rates does not translate into lower freight costs; you must employ them! You must insure that all of the rates, terms and conditions of the contracts you negotiate are employed automatically to eliminate rogue spending within your own organization. On-Demand TMS® computes accurate audit-quality rates as a by-product of the planning process, and these are conveyed to the carrier when the shipment is tendered and are passed through to the self-billing settlement process.

Settlement

Manual freight bill audit and payment is a costly and error-prone process. In fact, original errors can cost a company 8-10 percent of its annual freight bill. Since deregulation in 1980, the best practice method to handle freight bill audit and payment has been universally accepted, that of "self-billing." This involves the shipper pre-computing

an audit quality rate and conveying it with the tender to the carrier and then paying the carrier upon delivery confirmation.

This process pays the carriers the correct amount the first time and pays for each shipment only once. Unfortunately, many companies do not have either the rate database or the system constructs that allow them to implement self-billing.

WebSettle®, the freight payment component of On-Demand TMS®, reduces your administrative expenses by incorporating self-billing. Since On-Demand TMS® produces audit quality rates in the planning and execution phase, payment is automatic upon closing the load. WebSettle® will also perform freight bill matching and duplicate payment detection for carriers who must submit traditional freight bills. Paid bills are added immediately to payment history for duplicate detection. WebSettle® also accurately allocates freight costs to shipments and orders.

Analyzing and Improving

The key to success with continuous improvement programs is to generate performance-to-plan report cards for all parties (carriers, suppliers, and your own company). For your carriers, you want to measure their compliance to the first tender (route guide compliance/turndown percentage), the financial impact of any non-compliance, as well as analyze their on-time performance (for both pick-up and delivery). You should measure your own compliance to your route guide to identify and eliminate rogue spending, and also your compliance to lane volume agreements to insure you are offering the carriers the volume you contracted for. You must then conduct periodic reviews with your carriers, perform root-cause analysis, and conduct continuous improvement programs.

With On-Demand TMS®, you also have the ability to community benchmark to compare your performance to those who are best-in-class. In addition, network reports provide a holistic view of network trends and performance. Volume and lane analysis, complimentary network analysis (between companies), and network-wide carrier performance analysis also can be used for performance benchmarking. Spend and performance analyses close the loop on the transportation spend management process. With each iteration, your transportation business processes improve and your overall freight bill is reduced.

Managed Services

Managed Services are critical to the Spend Management program, especially for organizations with already over-burdened staff. Managed Services is the outsourcing of specific transportation business processes to LeanLogistics in order to derive maximum value from your implementation. This means you do not have to divert resources from your critical business priorities to realize the value the benchmarking identifies; we do it for you.

Within your On-Demand TMS®, your transportation



business processes are centralized and standardized. You can choose to assign responsibility for any number of daily operational and benchmarking tasks to LeanLogistics but retain organizational flexibility and control. Operational tasks, for instance, may include all of the Spend Management program components. You decide exactly what transportation processes to outsource and what to keep. You maintain complete visibility into all transportation operations, but acquire critical resources from LeanLogistics that keep you from having to change priorities or personnel assignments.

Conclusion

This unique Closed-loop Transportation Spend Management program is the capstone to LeanLogistics' immensely successful Path to Value program. Spend Management offers you significant benefits, including:

- **Savings** – the program delivers ongoing savings by identifying areas with key issues and providing you with the information to address them immediately.
- **Flexibility** – the process can adapt to growing and changing businesses, volumes and network configurations.
- **Full coverage** – by adopting a holistic process and also by addressing only the key issues as they arise.
- **Speed** – the turnaround that is impossible using normal techniques; more frequent examination, and rectification, of out-of-tolerance conditions.
- **Sustainability** – an automated, repeatable, and on-going process ensures rates and services are aligned with the best-in-class in the market.

Business Intelligence measures spend management and process efficiency, but Community Benchmarking is the key to success. By comparing your performance to others who are best-in-class, as well as measuring your performance by itself, you gain performance context that is otherwise unavailable.

Your transportation spend management can be best-in-class, with implemented best practices that yield cost controls and fiscal responsibility – and significant annual freight bill savings!

Learn more about Transportation Spend Management, and download the authoritative report, "The CFO's Guide to Transportation Spend Management," authored by Adrian Gonzalez, Director of ARC Advisory Group's Logistics Executive Council, at <http://offers.leanlogistics.com/infocenter/>.

