

Procurement best practice

In April 2009 this column said shippers and carriers each year negotiate terms of service as though they're on either end of a baseball bat — swing or be swung at, depending on prevailing market conditions (“Bid responsibly,” www.AmericanShipper.com/links).

In the 16 months since, the “bat” has changed hands a number of times as the transportation industry has experienced unprecedented volatility.

“We have seen a high uptake in discussions about transportation purchasing as the market has flipped from a carrier’s market to a shipper’s market back to a carrier’s market in the last 18 months,” said Rachel Rutkoski, senior category manager, transportation and logistics, at Ariba North America. Ariba provides business commerce technology including transportation procurement.

American Shipper’s second annual Transportation Procurement Benchmark Study (available at www.AmericanShipper.com/Procurement) illustrates how shippers manage these dynamic times by embracing technology and centralizing procurement activities.

Our study results validate Rutkoski’s observation, as the share of buyers automating transportation procurement in some capacity rose from 40 percent in 2009 to 60 percent in 2010.

“The time and manual effort involved in conducting large bids make automation appealing,” said Greg Holt, director of marketing for CombineNet, a transportation procurement technology provider. “Using an e-sourcing solution with the appropriate capabilities makes the process quicker, more efficient and allows for better decision making.”

Automating procurement helps customers “take advantage of conditions in a down market and helps them mitigate risk in an up market,” Rutkoski said. In an up market, “we can help buyers with the right price, service and risk strategy.”

She outlined three ways technology helps buyers manage procurement in an up market:

- Buyers accurately reflect business to sellers, enabling them to effectively price services without padding pricing.
- Buyers may entertain alternative proposals. Carriers can bid in a way that makes them comfortable and shippers can make apples-to-oranges comparisons across carriers.
- Besides optimizing across modes, buyers also create the best award model based on price and non-price constraints.

Ariba and CombineNet both estimate e-sourcing reduces by as much as half the average sourcing cycle time, from negotiation kickoff to contract finalization.

Kraft Foods, the world’s second-largest food company, has taken an automated, centralized approach to procuring ocean transportation services for its expansive global network. “We can effectively manage spend and leverage our scale, providing us with opportunities to drive out costs from our international supply chain,” said Eric Brandt, Kraft’s global logistics procurement manager for global ocean transportation.

Among benefits Kraft Foods has achieved through GT Nexus’ platform are: enhanced contract management, allocation decisions based on optimization scenarios, monitoring allocation compliance, spend consolidation, carrier rationalization, improved carrier relationships, and greater focus on analysis, negotiating and allocations.

Employing sophisticated applications sets the stage

for centralizing procurement activities. Study findings validate this notion. Most notably, regional buyers are twice as likely to see contract freight rates increase by more than 10 percent in 2010.

“When you centralize procurement functions the scale and complexity of sourcing activities goes up dramatically,” Holt said. “Systems automate many of the manual, time-consuming processes and operate in a systematic, repeatable and visible format which makes this more manageable.”

Buyers can manage a large, centralized bid without sacrificing quality, which is far more difficult to maintain as bids become more complex and market volatility prevails.

“What typically happens is buyers will oversimplify their procurement effort to manage a large bid manually,” Holt said. “For example you might not invite new carriers, opting instead to request blanket rate discounts from incumbents; or you might create bundles of lanes to simplify the bid analysis process. Both of these approaches are less than desirable as a practice for rate negotiations with carriers.”

Automating Kraft Foods’ ocean procurement process “has absolutely facilitated the centralization of this function,” Brandt said. “Most noticeably, we’ve gained a distinct credibility with our business units and our ocean carriers. We have taken this effective process and system and integrated it across the company.”

Kraft’s accurate and reliable data enables freight audit, total cost of ownership calculations, sourcing and purchasing decisions, as well as identification of cost saving opportunities, he said. It has also streamlined the process so there’s transparency between Kraft and its providers.

Procurement technology, when correctly used, also benefits carriers. “This is an opportunity to show them business they may have never seen for which they want to compete. Show them what they stand to gain instead of just what they stand to lose,” Holt said.

“Kraft Foods has enhanced our negotiating power by leveraging scale,” Brandt said. At the same time it “has become a more desirable customer for our global ocean partners.”

Consolidating its network of ocean carriers has enabled Kraft to focus on these strategic partnerships. “It’s not just about cost savings, but other benefits such as service improvement, operational efficiencies and organizational excellence,” he said.

Yet there are considerable challenges facing shippers who plan to modernize procurement.

Every mode has unique challenges based on the power the carriers hold, Rutkoski said.

Our study shows carriers are undecided about the effectiveness and intention of e-sourcing in transportation. Roughly two-thirds of carriers polled disagreed that online bids were an effective means of selling their services.

“There are some misconceptions about what e-sourcing is about and the benefits to all parties,” Rutkoski said.

This includes “a lack of trust or confidence from the regional manager in the centralized procurement team,” Holt said. Yet the most powerful tool in creating organizational buy-in may be found in the technology itself.

“Optimization technology allows centralized procurement teams and regional managers to collaborate on sourcing decisions that balance centralized goals and regional preferences,” he said. “The system can demonstrate the cost and service impacts of those sometimes competing preferences so that decisions can be made collectively.”



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