



corcentric™

Bringing Procurement and Logistics Together

Procurement has always had a tough time making an impact in certain categories and collaborating with certain business functions. Logistics has long proven especially challenging.

It's not hard to see why. For a start, Logistics spend is unique. Neither fully direct nor fully indirect, the category defies traditional methods of classification. It also rarely lends itself well to Procurement's traditional methods. That leaves Procurement and Logistics disconnected within a number of organizations. At worst, the two functions spar with one another over their conflicting priorities. At best, they partner with one another out of necessity, struggle to communicate, and settle for far less than they could be getting.

"Collaboration between Procurement and Logistics will only grow more complicated as global markets grow more volatile."

Typically, Procurement's mandate compels it to pursue the lowest possible price. This is rarely so compelling for Logistics. This function, concerned with the entire supply chain, is looking instead for the best possible price. A slew of factors will come into play. These include (but certainly aren't limited to) transit times, pick-up times, and damage rates. In certain years, realizing cost reductions simply isn't possible. When the market doesn't favor shippers, achieving 'savings' becomes a matter of mitigating rate increases rather than avoiding them altogether. Other measures of value might include risk avoidance and customer satisfaction.

Even complex spend categories like MRO are often managed by consolidating the supply base and renegotiating key contracts. Logistics is generally too complex, too disparate from company to company, for these tried-and-true methods to work. It requires Procurement to develop an especially careful and customized approach, leverage a deep knowledge of evolving cost factors, and pay particularly close attention to changes in the market.

Tariffs and trade unrest are nothing new. In an increasingly global and fast-paced world, however, their potential impacts are greater than ever. Both a challenge and an opportunity, they've made it more important than ever for Procurement to evolve beyond its typical approach and begin speaking the language of Logistics. Those organizations that thrive – even survive – throughout the global economy's next era will do so because of closer ties between their Procurement and Logistics functions. Corcentric has long advocated for breaking down silos between business functions and building Procurement teams with flexible skillsets. Throughout this whitepaper, we'll describe the complexities and conflicts that often keep the business units separate and outline our approach for bringing them together as partners.



Supplier Negotiations + Early Engagement

For a company that wants to initiate a sourcing event (RFP), it will be important to determine when to begin initial supplier engagement. The volatility of the industry will often affect this decision.

At the stakeholder level, a procurement and sourcing consulting company will work with subject matter experts who know the company's operations inside and out to navigate around obstacles and address volatility. These are the variables of Logistics and are critical to understand. The main stakeholders work every day with their team and with their suppliers to assess industry trends and prepare for any changes that could directly affect their logistics and supply chain network. By engaging with the incumbent and prospective suppliers prior to creating the RFP itself, the organization gains industry knowledge that will help to guide the specifics of the document and subsequent sourcing event. The goals are to gain the suppliers' insights on the previous 12 months in their industry, what they see trending for the next 12 months, and how they see your organization fitting into their goals for the future.

By introducing the carriers to the process early in the timeline, you'll gain a clearer picture of the RFP's goals, a clear definition for the future partnership, and a measuring stick for the RFP responses as they come in.

As negotiations progress, you'll also make more informed decisions by referring back to these initial goal-setting conversations.

We utilize future trends and industry outlooks to help develop savings targets.

The Use of Specialized 3rd Parties

With all of the intricacies and specialized services potential in the broad spectrum of Logistics, it's unreasonable to think a person, a department, or even a company can be expert in all subject areas. Beyond their own capabilities of a standard Logistics knowledge base, a company may require the support of a specialized third party to build out data on such things as:

- a deep dive into their fuel surcharges for full truckload
- a need to standardize their base rate across all LTL carriers
- gain further knowledge on how external factors might impact their freight cost (tariffs, etc.)

The ability to build these strong third-party relationships benefits companies for a variety of reasons. Primarily, Corcentric has access to tools and knowledge other companies simply don't have and is able to provide background and history on a wide variety of projects we have worked on in Logistics. We are then able to work with key stakeholders within our clients' Logistics departments to assess the potential work streams and identify cost savings opportunities. This type of insight enables Corcentric to quickly build a strategy for those work streams by immediately working with our outside experts. When thinking about an outside-the-box approach to Logistics consulting, it's important to lean on experts within those fields no matter who they work for. Corcentric is well-versed in Logistics, connected to a broad partner network, and happy to share our knowledge throughout the process.

The Process of Sourcing Logistics

When taking on a typical Logistics project, Corcentric will approach the initiative in four phases. These phases may shift and overlap based on the specific requirements of a client or prospect.

Phase I – We meet with primary stakeholders to understand specific requirements, specifications, volumes, and constraints. This provides a full product and supplier history in order to help define unique qualitative goals. We'll then work with each incumbent supplier to gather all the data required to accurately develop a true freight profile and establish a normalized baseline.

Phase II – We conduct a state-of-the-industry assessment by meeting with incumbent suppliers/carriers, newly qualified carriers, and other third-party experts. The key here is to develop realistic outcomes that may result from the sourcing engagement. There are instances where this phase can move to the beginning of the project, if it is especially important for clients to understand current industry trends. We utilize future trends and industry outlooks to help develop savings targets. Many other organizations rely on historic benchmarking tools that estimate savings based on old, potentially inaccurate data. We'll then evaluate each supplier's ability to meet the required goals and establish the proper communication channels with all suppliers/carriers participating in the bid. This includes scheduling all subsequent introductory calls and meetings.

Phase III – We work with key stakeholders to build out a full shipping profile (product lists, freight pictures, dock hours, etc.) and agree on specific contractual items to include in the RFP document. Next, we run the actual sourcing event, which can include the following steps:

CORCENTRIC'S FOUR PHASE APPROACH

Phase I

Phase I – We meet with primary stakeholders to understand specific requirements, specifications, volumes, and constraints.

Phase II

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Phase III

We work with key stakeholders to build out a full shipping profile (product lists, freight pictures, dock hours, etc.) and agree on specific contractual items to include in the RFP document.

Phase IV

We develop the final carrier selection and routing scenario with the client. Then, we will communicate those estimated awards and volumes to the suppliers

- Drafting the RFP
- Reviewing the RFP with the client
- Distributing the RFP to qualified suppliers
- Collecting and answering questions from the suppliers
- Reviewing pricing from suppliers and validating their offers
- Building a Round-1 analysis showing supplier pricing for all applicable services
- Working with top-priority suppliers to make final, targeted pricing adjustments

Phase IV – We develop the final carrier selection and routing scenario with the client. Then, we will communicate those estimated awards and volumes to the suppliers. Additionally, we'll develop any final routing guides needed, coordinate kickoff meetings and onsite visits, and will close the project by working on final contractual negotiations and go-live dates.

Customer Use Cases

Sourcing Logistics can be a complex undertaking for any company. When compounded by the fluctuations of market forces, Logistics presents many challenges for acquiring and moving materials and services, but also opportunities for greater efficiencies and, of course, savings. Corcentric is constantly assessing industry regulations, conditions, and projections to manage best approach for our clients. The following sample RFP processes detail how we were able to implement innovative Sourcing strategies for our Logistics clients.

THE OCEAN FREIGHT PROJECT

For ocean freight shipping, 2018 was unlike any other year on record. Corcentric worked with both the carriers and the stakeholders for a primary, multi-billion-dollar conglomerate client to help define the expectations moving into the

2019/2020 shipping season. During our early engagement with the incumbent suppliers in January of 2019, the common theme during the conversations was how volatile the market was and how unforeseen circumstances had made 2018 an unprecedented year.

Rates at the beginning of 2018 were tremendously low. Then, the United States implemented tariffs on a large number of imported Chinese materials and goods. Another major industry-wide change on the horizon was the International Maritime Organization's new regulations on Sulphur emissions (IMO 2020). Both the introduction of the tariffs and imminent implementation of the new fuel regulations meant the cost to import freight was going up – way up.

Due to these industry-wide changes, the ocean freight subject matter experts at each of the client's operating companies needed to work with their finance departments to properly budget for their estimated 2019-2020 shipping season. Depending on the anticipated impact, (as a result of tariffs, fuel regulations, and the general cost of freight) each operating company (Op-Co) set forth an expected cost for shipping within their primary import lanes. These budget numbers became the new baseline. Corcentric established a realistic baseline using the previous price paid, expected increases, and historic volumes. The goal was to run an RFP to secure pricing below these budgets.

When taking on any project, especially in the Logistics category, establishing the expectations at the beginning and clearly outlining the definition of "savings" are critical to success. Ocean freight's market conditions will dictate what the anticipated results of an RFP will be so expectations need to be managed accordingly. By following this approach, the 2019 Ocean Freight RFP for the client produced a total of **\$1.875M in savings** as defined by the project scope.

THE LTL PROJECTS

In 2019, the general consensus held that it was a buyer's market for LTL freight. Corcentric ran two large, separate LTL projects for the client resulting in significant savings. The client had prior experience with other consulting companies running LTL projects and the sentiment echoed over and over again was how frustrating the process had been. Previous consultants had tried to apply a one-size-fits-all approach to each of the client's companies. Corcentric understands that each company has a unique shipping profile, and to combine the freight across all Op-Cos would be detrimental to some of them.

In each situation, Corcentric was able to reach out to the incumbent carriers to get a full twelve-month data set with complete line-item detail - which included actual class - and established an accurate baseline as a result. We also used this data to create accurate freight profiles, which were accompanied by pictures of the common freight. Corcentric used this information to craft the RFP files respectively.

There were two key elements to point out with these RFPs. The first was that one company we worked with was not using a Czarlite base rate for their pricing structure. Corcentric used an outside third party to normalize the data and provide the discount equivalent on Czarlite 2003. We then asked the carriers to bid using this base rate. We were able to apply the proposed discounts and minimum charges accordingly to the data set and calculate savings as a result. Our other key contribution to the RFPs was to introduce a significantly more aggressive fuel schedule to both Op-Cos. All carriers agreed to this fuel schedule, which was able to achieve over \$500k in savings for each Op-Co right out of the gate.

Each Op-Co has specific routing requirements with their LTL shipments. When those factors are introduced to the analysis, some lower cost options are eliminated. Despite those limitations, two of the companies we worked with were able to save more than \$1M on LTL freight. One company alone was able to combine freight reduction, fuel savings, and base rate standardization in order to get \$1.1M in savings on approximately \$9M in total spend. Another company, which was already on Czarlite 2003, still achieved over \$1.3M in savings on \$13.7M of in-scope spend.

THE TAKE ON FUEL

In both the ocean freight project and the LTL Projects, fuel played a fairly significant role in some aspect or another. For the ocean freight project, the IMO 2020 fuel regulations caused carriers to greatly increase their cost of fuel in 2019 in preparation for the January 1, 2020, go-live date. With the LTL projects, Corcentric was able to introduce a fuel schedule that was significantly

lower than what each Op-Co had previously. This accounted for almost 50 percent of the total savings for the projects.

A company's ocean freight fuel program can either be defined by themselves, by the carrier, or by a third party. In the client's case, their fuel program was defined by a third party: Breakthrough Fuel. This helped reduce carriers' ability to over-charge and over-compensate for the IMO 2020. The carriers no longer had the ability to build margins into their fuel programs as well.

This same philosophy was applied to the Full Truckload programs for both companies that were previously discussed. Breakthrough Fuel worked with each Op-Co and their incumbent FTL carriers to implement a fuel program where margin was taken out of the fuel equation. The key reason why this is a good selling point is the volatility of fuel. If carriers are baking margins into their fuel, the rise and fall of fuel rates directly impact their bottom line. Breakthrough Fuel sets the fuel market for a company by using detailed analytics and then relies on the customer to implement the program with each of their carriers.

The carriers will have to go back to the drawing board when it comes to their base rates, but the selling point is that the two companies in this example were able to greatly reduce their fuel spend and the carriers get to re-evaluate their freight charges and set their price on something less volatile than fuel. By having more visibility into the fuel program and working with the carriers to establish fair freight charges, the client was able to save more than \$1M on their FTL volume.

THE BACK HAUL OPTIMIZATION AND FEE RECOVERY PROJECT

When working with a client like this multi-billion-dollar conglomerate, it's important to deliver on projects that might fall outside the RFP scope of traditional small parcel, LTL, ocean freight, etc. One company in the client's Global Plumbing division had a specific need to be able to fulfill a backhaul from Las Vegas to North Carolina. This company had previously worked with a 3PL many years back who they wanted to engage for this initiative. Corcentric has contacts with a number of 3PLs and selected the best-fit option. We then used both 3PLs as measuring sticks against each other to determine the ideal partner for this client's large plumbing company.

Ultimately, both options suited the company in the Global Plumbing division, which then agreed to register with both 3PLs as a carrier, use both platforms to book loads coming back to North Carolina from the Las Vegas area, evaluate the metrics of both along the way (ease of use, average cost recovered, potential for future growth opportunities, etc.), and commit its volume to the more favorable provider.

Savings for this project were defined as a Fee Recovery. Needing to run five trucks to Las Vegas a week, they also needed those trucks to come back full. In order to continue running these trucks, they needed that backhaul option in order to not face the cost of an empty truck. Each time a backhaul was filled by either of the 3PLs, that money would be considered a Fee Recovery and would count as savings for the project. Based on the historical average cost for the NC to LV lane and the frequency of the backhaul, it was estimated that this one company in the client's Global Plumbing division would be able to recover approximately \$190K over the next 12 months.

Defining Savings

Utilizing a predictive approach for project goals and potential savings is even more important for Logistics spend than for other indirect procurement categories. There are many factors in play which could prohibit a company from gaining traditional savings when compared to previous price paid. What are traditional savings? Paying less for the same product or service than previously.

So why isn't this the goal for every Logistics sourcing project? If the primary cost reduction method is to run an RFP every year hoping that suppliers will continue to lower their costs then, at some point, this process will bottom out. Carriers can only go so low when it comes to rates. This means the natural progression would be for the rates to eventually start to go up year over year alongside the cost of doing business and inflation.

Another major factor to consider is the overall market trend for a particular mode of transportation. Suppose an entire industry, like the ocean freight industry in 2019, decides that rates need to go up in order for them to remain profitable. In that case, every company that ships ocean freight in that year can expect costs to go up. New regulations, new tariffs, or other unforeseen

industry-wide changes can also impact rates in such a way that price reductions are simply unrealistic. So how can a company achieve savings in these scenarios? It's all in how savings are defined. If the proper assumptions are made for the future state of a shipping industry, then a company can budget for those anticipated increases. The savings come from successfully negotiating pricing that comes in under the expected amount. Mitigating a reduced increase can still be considered a major positive for a logistics sourcing project. While the cost to ship the same business as the previous year will be higher, the funds allocated to account for that increase will not be fully needed. The delta between the budgeted increase and the actual increase as a result of the sourcing event can be considered savings.

The bottom line is that any company needs an intelligent Sourcing strategy. Corcentric not only assesses your market and builds your Logistics approach, we remain involved to ensure ongoing compliance with terms and conditions. Corcentric will give you extensive access to proprietary cross-industry market data, we share sourcing knowledge, lessons-learned, and insights gleaned from working for the most successful companies worldwide.

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Corcentric's services,
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Procurement and Finance Solutions

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