

SOURCING AIR FREIGHT

A market leading, global packaging equipment and consumables company identified a 42% savings opportunity, implemented a 21% savings scenario, and regained control of its air freight transportation spend.

Situation

Few organizations share the size and scope of this company's shipping challenges and to manage its shipping and related procurement requirements, it relied on a combination of in-house analytic talent and a 4PL partner. Although downstream execution systems were in place, the primary sourcing and analytic tool being used was MS Excel.

The company's leadership team viewed its shipping effectiveness as strategic and sought competitive advantage by taking more ownership and control. It wanted to reduce reliance on its existing 4PL partner by developing its in-house sourcing capabilities and ultimately "master the category". Following previous services-intensive approaches, the company was determined to solve its complex sourcing issues with the right technology and relevant trade references were important in the selection of a technology partner.

Challenges

- The company's existing processes could not make valid carrier comparisons so the task of establishing a historic baseline was exceedingly difficult. It had no empirical ability to analyze past performance or measure future improvements and consequently its transport experts had no way to convert identified savings opportunities to realized benefits.
- Not only did the company have its own internal pricing structure(s), but each of its carriers had proprietary charge models and differently

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defined service levels, making it virtually impossible to compare supplier offers and establish an equitable competition.

Wins

- Trade Extensions was quickly able to aggregate, normalize and enrich the historic pricing and service level data. This not only allowed an accurate baseline to be set for the project, but it established its foundation for ongoing sub-category management.
- Trade Extensions determined that it would be beneficial to source small package over land with small package via air, as it believed a better overall competition could be stimulated, more value could be unlocked and unexpected disruptions could be managed more effectively.
- **TESS™** provided the carriers the freedom to express their best offers using their own systems. TESS was quickly able to digest and normalize a variety of conditional bids.
- When accommodating urgent customer requests, the company had traditionally made the carrier choices manually which frequently resulted in freight rating and pricing errors. TESS delivered a decision tree that not only accelerated the one-off carrier selection process, but optimized it from a freight cost perspective. Essentially, the company was able to use reports generated by TESS to enable a new operational discipline.

Results

- First round bidding identified a savings opportunity of 32%.
- After feedback was provided to the carriers, second round bidding resulted in an identified savings opportunity of 42%.
- The scenario selected delivered a 21% savings – an unprecedented ROI.

The company applied a number of strategic constraints to the bids it received as it wanted a fixed proportion to be awarded to certain incumbent carriers and it also had a desire, in some second and third world markets, to award more contracts to local carriers. TESS made it simple to apply these strategic business constraints and after analyzing the trade-offs between preferred carriers, various service levels and cost, the company selected a scenario that resulted in 21% savings.

The company continues to improve service levels, reduce risk and lower costs. Since this first project, it has successfully sourced multiple modes of transport and is now combining its transport requirements into larger, super-regional multi-modal sourcing events.



USE CASES

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selected
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