Aberdeen Group

Send to a Friend

Winning Strategies for Transportation Procurement & Payment

How Leaders Are Taking Advantage of Market Conditions to Lower Freight Costs

February 2007

— Underwritten, in Part, by —

COMBINENET The Optimal Solution

PRECISION A DIVISION OF QAD

PowerTrack FREIGHT PAYMENTS

ControlPay

data 2 logistics A PLATINUM EQUITY COMPANY

Executive Summary

In 2007, with freight rates starting to soften for some transportation modes, the majority of companies believe this is a great time to review their procurement and freight audit & payment practices and technology. **Companies believe they can save an average of 8.8%** on their overall freight budget with a more sophisticated procurement or payment/audit system, and this is backed up by Best in Class results.

Key Business Value Findings

Aberdeen analysis of 380 companies finds that a segment of respondents have been able to reduce their negotiated freight rates since 2004, while the vast majority of companies suffered freight rate increases. These Best in Class companies are taking noticeably different actions than their peers. In particular, these top performers are:

- 1.5X as likely to manage procurement centrally.
- 1.6X as likely to let carriers bundle and unbundle lanes in their responses and 1.7X as likely to use multiple bidding rounds with carriers.
- 1.4X as likely to use a procurement application for their carrier selection process rather than spreadsheets or manual processes.
- 1.4X as likely to use online collaboration with carriers for invoice exception handling.

Implications & Analysis

Aberdeen's Transportation Spend Management Framework details how companies can implement a closed-loop process to drive lower negotiated rates, improved service, and significant realized freight savings. This closed-loop spend management process is enabled by increased automation and decision-support technology.

In the next 24 months, fully 81% of companies with freight spend over $25 million plan to implement new transportation procurement or payment technology, as well as 44% of companies with spend under $25 million. Best in Class companies are 1.3X more likely to have implementation plans than their peers.

Recommendations for Action

Based on this study's findings, companies seeking to improve their transportation procurement and payment processes should:

- Centralize their freight procurement operations and evolve beyond manual processes and spreadsheets.
- Implement a formal spend management process and encourage more innovation in their carriers' bid responses.
- Mine spend management data to improve cross-functional business decisions.

Send to a Friend

Table of Contents

Figures

Tables

Chapter One: Issue at Hand

Key Takeaways

- A majority of companies believe 2007 is the right time to improve their transportation procurement and payment practices.
- Companies believe they can save an average of 8.8% on their overall freight budget with a more sophisticated procurement or payment/audit system.
- Fully 81% of companies with freight spend over $25 million plan to implement new transportation procurement or payment technology.

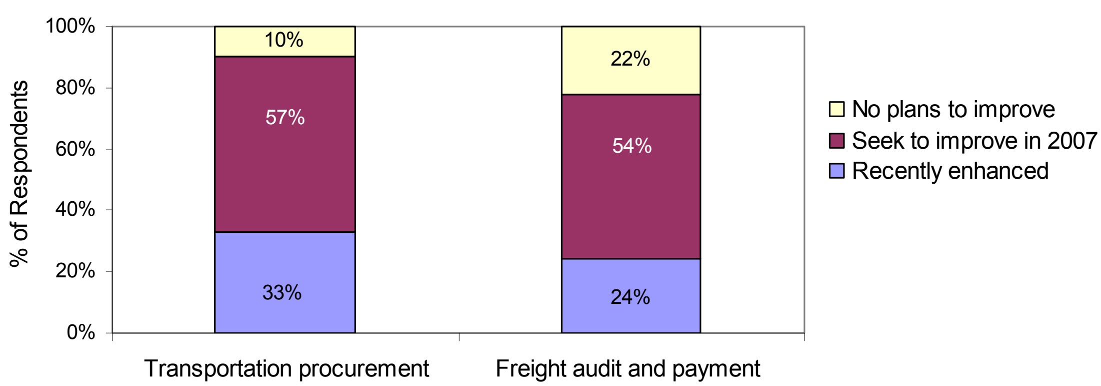
Transportation cost control has been under intense pressure in recent years. Upward pricing drivers have included lengthening supply chains due to globalization, customers demanding faster and more frequent deliveries, carrier capacity challenges, stricter accessorial enforcement by carriers, and fuel surcharge gyrations. To find out how companies are coping and which procurement and payment strategies are working best, Aberdeen benchmarked 380 companies in February 2007 (see Appendix A).

Fully 70% of respondents reported that their actual baseline freight spend (e.g., spend adjusted for sales volume change) has increased since 2004. Only 8% of companies report a significant decrease in freight expenditures.

In 2007, with freight rates starting to soften for some transportation modes, companies believe this is a great time to review procurement and freight audit & payment practices. **Companies believe they can save an average of 8.8%** on their overall freight budget with a more sophisticated procurement or payment/audit system. For a company with $50 million in freight spend, this equates to $4.4 million in potential savings.

As Figure 1 shows, 90% of companies are focusing or have recently focused on improving their transportation procurement practices, and 78% are concentrating on improving their freight audit and payment processes.

Figure 1: A Refocus on Transportation Procurement & Payment Processes



Source: *AberdeenGroup*, February 2007

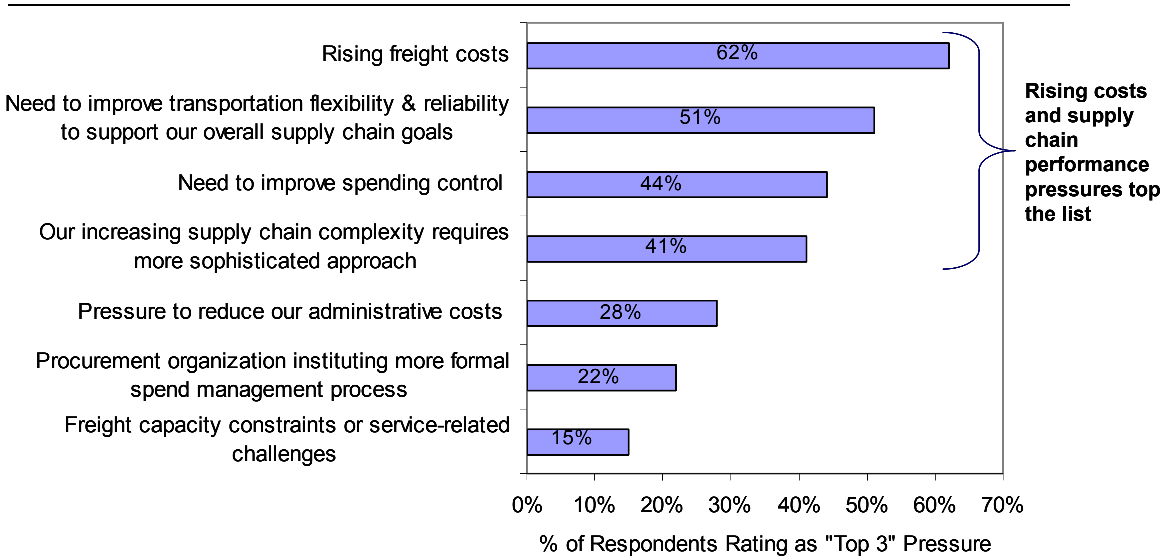
Why Transportation Procurement & Payment Is a New Focus

Rising freight costs are clearly the top pressure driving companies' renewed focus on transportation procurement and payment (Figure 2). Companies realize they need to institute better spending control to ensure their purchasing volume leverage is being maximized and that shipments consistently follow corporate rules on using low-cost/best value carriers or service options.

- "Consolidating procurement to a global sourcing team comprised of logistics and procurement professionals enabled supplier rationalization and improved our negotiating leverage so we could reduce costs," explains an executive at a large pharmaceutical company.
- "What helped us control costs most was actually negotiating with carriers instead of using shipping personnel's favorites," reports a procurement manager at a midsize aerospace & defense company.

However, cost is not the only factor on procurement and logistics professionals' minds. Growing recognition of the critical role transportation flexibility and reliability play in overall supply chain performance is causing companies to reexamine their spend management processes. Increasing supply chain complexity caused by more manufacturing outsourcing and globalization is also making many companies' traditional transportation procurement practices outdated.

Figure 2: Pressures Driving Improvement Focus



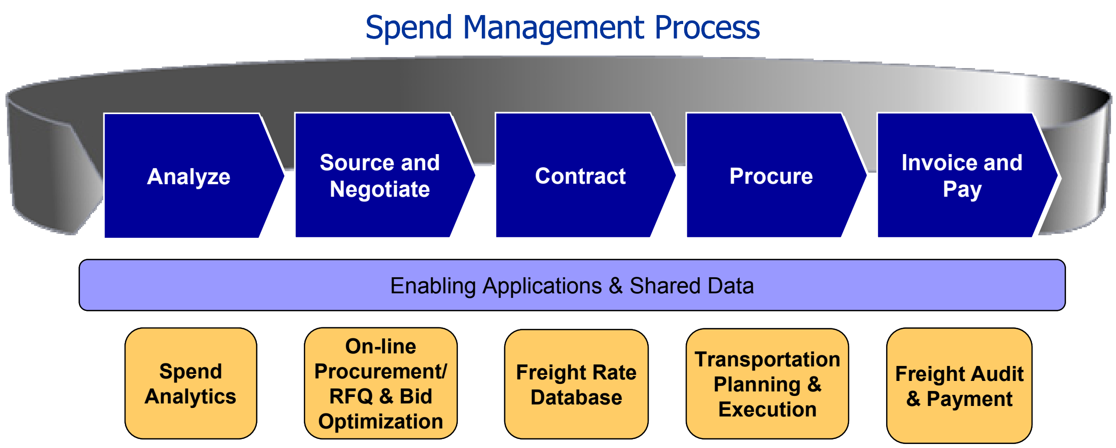
Source: AberdeenGroup, February 2007

Best in Class and the Case for Closed-Loop Spend Management

Companies whose negotiated freight rates (including accessorials and fuel surcharges) have declined since 2004 were designated as "Best in Class" companies for this study. In all, 28% of respondents fell into this category and reported about an 8% average rate decline. By comparison, 52% of companies (termed "Industry Average") indicated their negotiated rates remained flat or increased 1-10%. And 21% (termed "Laggards") reported their negotiated rates increased more than 10%.

Simply negotiating better rates, however, does not translate into lower freight costs. To realize negotiated savings, closed-loop spend management is required. Figure 3 shows the Aberdeen framework for Transportation Spend Management.

Figure 3: Transportation Spend Management Framework



Source: Aberdeen*Group*, February 2007

The feedback loop between the freight audit & payment process and the spend analysis and negotiation process is a critical ingredient for spend control. "The recent change that has reduced freight costs at our company is centralized bill payment, which has facilitated the collection of data used for improved negotiation," reports a large automotive company.

Many companies are moving to more frequent bid processes or implementing incentive-based contracts; these actions are increasing the importance of continual freight spend monitoring and exception management. For instance, while 25% of companies report using incentive-based contracts with some carriers today, another 36% wish to do so in the next 18 months.

More accurate freight cost data helps other corporate functions as well, including direct-material sourcing and finance, by improving the accuracy of corporate budgeting, cash management, and landed cost and margin calculations.

Investment Plans for Spend Management Technology

In the next 24 months, fully 81% of companies with freight spend over $25 million plan to implement new transportation procurement or payment technology, as well as 44% of companies with spend under $25 million. Best in Class companies are 1.3X more likely to have implementation plans than their peers.

The top process and technology strategies that Best in Class companies take to execute transportation spend management are identified in Chapter 2 (procurement) and Chapter 3 (payment).

Chapter Two: Transportation Procurement Best Practices

Key Takeaways

- Best in Class companies are **1.5X** as likely to manage procurement centrally.
- Best in Class companies are **1.6X** as likely to let carriers bundle and unbundle lanes in their responses, and **1.7X** as likely to use multiple bidding rounds with carriers.
- Best in Class companies are **1.4X** as likely to be using a procurement application for their carrier selection process.

While 92% of companies are focused on reducing or containing freight costs as their top procurement goal for 2007, fully 61% say they are also focused on increasing the use of best value carriers. In the 2007 shipping environment, merely a quarter of companies report having a focus on finding new carriers to use or locking in capacity. The primary objective is to reengineer current carrier relationships to drive lower costs and better service.

Overcoming Top Procurement Barriers

Achieving these objectives is easier said than done. Companies feel challenged to improve their transportation procurement processes due to a lack of staff resources, poor data availability, and insufficient technology (Table 1). These limitations constrain the number of bidding events that can be supported and the sophistication of bid preparation and analysis.

Table 1: Barriers to Better Transportation Procurement

Procurement Barriers	% Selecting as "Top 3" Barrier
Lack adequate staff resources	52%
Hard to collect internal data to create and analyze bids	47%
Lack sufficient technology (e.g., bidding and analytics tools)	42%
Insufficient staff expertise	42%
Carrier responses are not standardized	35%

Source: Aberdeen*Group*, February 2007

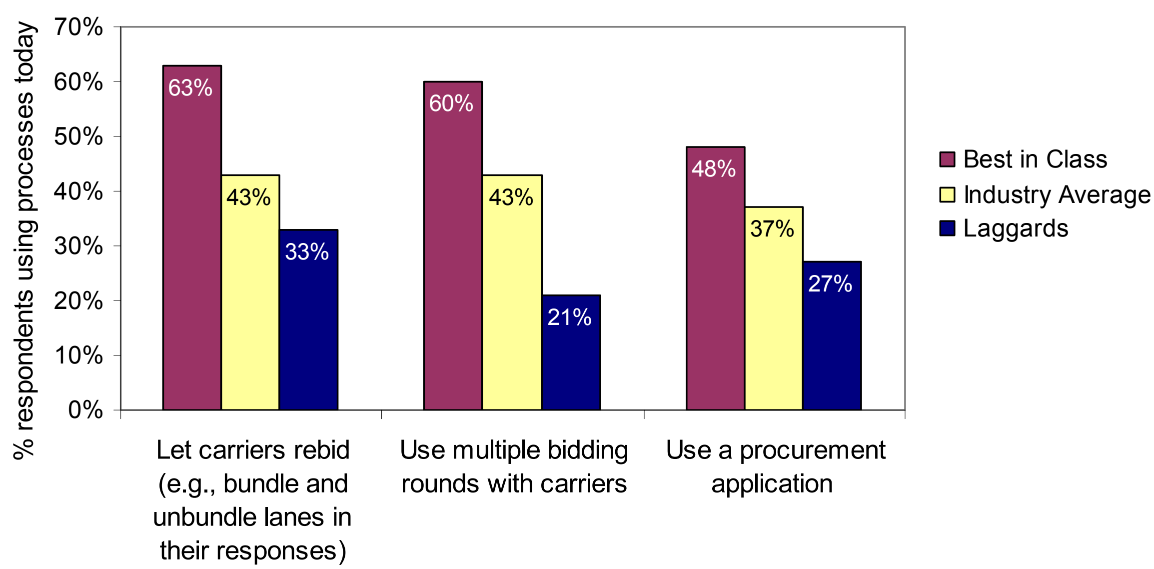
In addition, 42% of companies lack sufficient staff expertise to deal with the complexity of transportation rate structures, accessorial fees, fuel surcharges, and lane/mode combinations. Specialized knowledge and tools for structuring and analyzing bids are deeply helpful for transportation procurement.

Best in Class: What They Do Differently

Despite these barriers, a significant set of companies – our Best in Class performers – have been able to negotiate reduced freight rates since 2004. Aberdeen research finds that these companies take markedly different actions than their peers (Figure 4).

- **Centralize freight procurement.** Almost all Best in Class companies (82%) manage most carrier selection and contracting centrally versus approximately half of their peers. Moreover, the Best in Class have a greater percentage of their freight spend under this central management. In fact they are 1.6X as likely as their lower-performing counterparts to have more than three-quarters of their total freight spend negotiated by the central group.
- **Encourage carrier bid innovation.** Best in Class companies are 1.6X as likely to let carriers re-bid (e.g., bundle and unbundle lanes in their responses or express other ways they could lower costs) and 1.7X as likely to use multiple bidding rounds with carriers. [A transportation lane is a mode and origin-destination combination.] These processes let carriers better match your freight with their network capabilities, thus enabling them to provide a lower price on the freight that fits best.
- **Use a procurement application.** Best in Class companies are 1.4X as likely to be using a procurement application (e.g., module of their transportation management system, general procurement tool used for all products, or specialized transportation procurement tool).

Figure 4: Key Best in Class Differences



Source: AberdeenGroup, February 2007

Organizing for Success: Who's Responsible for Freight Procurement?

Approximately 60% of companies have centralized the freight procurement process under corporate procurement or corporate logistics. Centralization of procurement is the easiest way to achieve volume buying power across the organization. Companies not yet buying centrally should move to this model for at least their high-volume providers. Many companies follow the 80-20 rule, allowing local negotiation and contracting for unique local carriers handling special freight requirements.

Table 2: Transportation Procurement: Centralized vs. Decentralized

Organization Primarily Responsible for Selecting (and Contracting) with Carriers	Domestic Carrier Selection	International Carrier Selection
Corporate logistics team	35%	36%
Corporate procurement/strategic sourcing team	27%	27%
Local/divisional logistics groups	21%	15%
Local/divisional procurement groups	10%	10%
Our logistics service provider or procurement outsourcer handles it	7%	12%

Source: AberdeenGroup, February 2007

Companies overwhelmingly reported that moving to centralized procurement was critical to reducing freight costs. Top factors for success:

- "Adopted a global cross-business unit procurement focus" – $5 billion North American company
- "Moved to corporate-wide freight agreements" – Large A&D OEM
- "Created a global internal logistics group" – Midsize manufacturer
- "A centralized approach so that carriers have the opportunity to bid on larger portions of the overall business" – Large Canadian distributor
- "The development of a global process" – Billion-dollar pump manufacturer
- "Centralizing through one corporate office" – Large telecom manufacturer
- "Centralized procurement of services" – Small plastics manufacturer
- "Greater promotion of collaboration among corporate business units under same holding company" – Midsize construction materials supplier

Procurement Improvement: The Dollars Are in the Data

- **Arm yourself with data for negotiations.** Top cost performers are using data to prove that they are a low-cost customer for the carrier to serve. This data includes factors such as driver wait times at supplier, customer, and internal dock locations, driver assist usage, driver friendly trips (e.g., ensure driver is home for the weekend), and fast and predictable payment. Companies of all sizes report that this has been effective in negotiating flat or reduced rates with carriers.

- **Know the true cost.** Mine freight payment and audit information to calculate the true total costs for using a carrier, including accessorials (e.g., detention and stop-off charges), fuel charges, and invoice dispute costs. Base freight rates are increasingly misleading in determining which carrier will be the low-cost provider. Knowing the true costs, your shipping patterns, and accessorial category breakouts will also help you negotiate more strongly on the greatest cost levers. For instance, parcel shippers may be able to negotiate out rural postal code definitions or move a postal code area to a lower zone rate if they can prove sufficient volume.

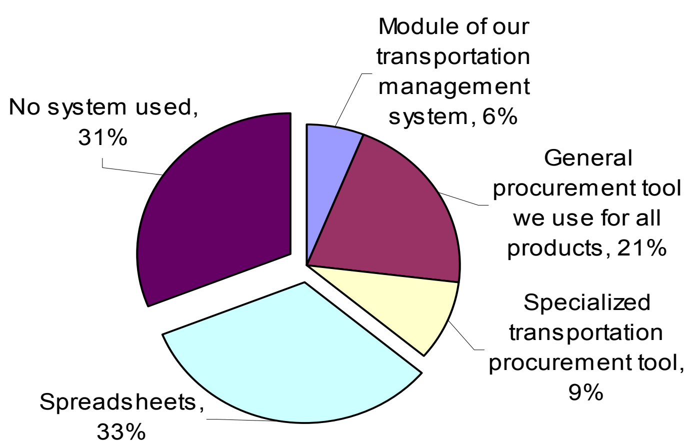
Procurement Technology: Leaving Spreadsheets Behind

Procurement technology helps companies improve staff productivity, negotiate more effectively with a larger carrier pool, and make better business decisions on which bids to accept.

- "Using a specialized freight procurement application has resulted in a bid process for our international ocean freight that takes half as long, and a management platform enabling productivity improvements that will absorb significant growth in international freight volumes without needing to increase our logistics management staff," reports the director of international logistics at a large retailer. "We also achieved a 4-5% reduction in transportation spend (worth millions of dollars) through the strategic bid optimization tool."

Figure 5 shows that 64% of companies still rely on spreadsheets or other manual-based processes. Today, about a third of companies with annual freight spend of less than US$100 million are using a procurement system rather than spreadsheets or other manual-based processes.

Figure 5: Current Procurement System Used



Source: AberdeenGroup, February 2007

In contrast, two-thirds of companies with freight spend over US$100 million are using a formal procurement application. On-line quoting, auction capabilities, and bid optimization were identified by study respondents as the key technologies that helped them reduce freight costs. One fast-emerging trend is the move to use one transportation procurement system for managing all modes globally across a company. Just 28% of respondents have such a system today, but 33% say they plan to shift towards this in the next 18 months.

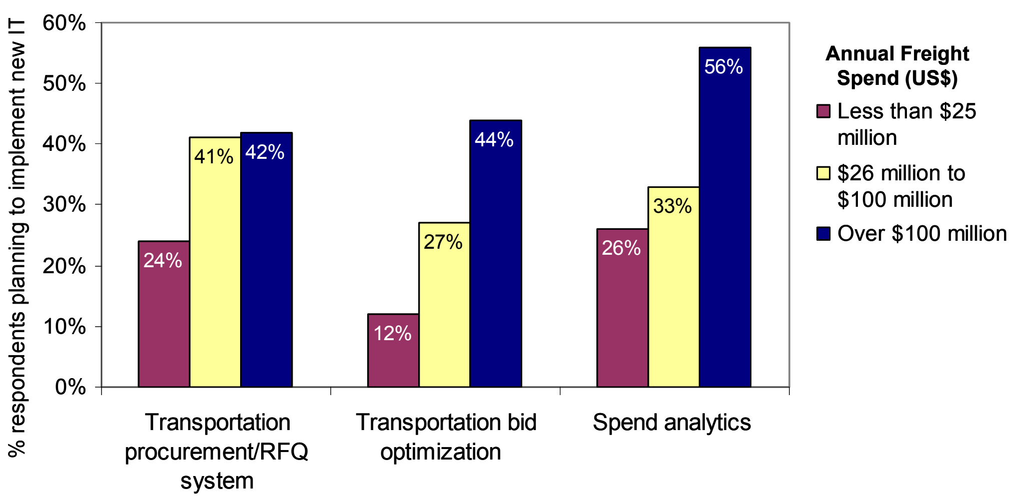
Bid optimization tools are also being prioritized by companies, especially those with large freight spends. These tools can manage the complexity that comes with multiple lanes and letting carriers bundle and unbundle lanes in their bid responses. Companies are realizing the benefits of competitive bidding cycles that encourage bid innovation.

- A pharmaceutical manufacturer needed to control $25 million in air and ocean freight spend. The company shipped across 900 lanes via three freight forwarders. It asked the three incumbents to give their best price to avoid an open RFP, and the forwarders came back with a total of $600,000 savings. The company decided to offer a wider bid and invite 10 firms to participate. The company let providers bundle and unbundle lanes and suggest alternate routings. After using the bid optimization tool to analyze the results, the company ended up selecting two of the incumbents but this time saved $6 million.

Procurement Technology Adoption Plans

In the next 24 months, 31% of respondents plan to invest in spend analytics tool for transportation procurement, 27% plan to implement a new transportation procurement/RFQ system, and 19% are seeking to buy a transportation bid optimization tool. In all, 55% of companies are planning for additional procurement technology use. Figure 6 shows the percentage of companies planning to implement a *new* technology system or module of an existing system in the next 24 months.

Figure 6: Procurement Technology Implementation Plans, by Freight Spend



Source: AberdeenGroup, February 2007

Using 3PLs or Outsourced Procurement Services

For some companies, moving freight procurement externally is the best choice. A number of midsize (e.g., revenue of US$50 million-$999 million) and large companies ($1 billion and above) reported that they achieved cost reduction by employing a third-party logistics provider or procurement specialist to manage the procurement process. "For us, the greatest impact came from outsourcing logistic purchasing to a procurement service provider," reports a large European chemical company.

- **Don't ignore your own fleets.** A large U.S. consumer packaged goods manufacturer used an outside consulting firm, Chainalytics, to solicit bids from common carriers and dedicated fleet providers. This information, along with the costs and capacity of its own private fleet, was used to build a model of the entire truckload transportation service potential. The model allowed the company to see which segments of its network would be best served by using private and dedicated fleet assets, given the new rates and capacity commitments that had been collected from one-way carriers.

  There were significant savings opportunities identified from redeploying the fleet assets to the lanes where they created the greatest value for the total network. The lanes that were awarded to common carriers would have been a very different set of lanes had the total fleet analysis not been undertaken.

- **Let the data show the best carrier combination.** For its European operations, a second large CPG company has used a combination of A.T. Kearney procurement expertise and a hosted best-of-breed system to improve its transportation procurement. The results show that a company cannot go into a sourcing process with a preconceived notion of how many carriers should be awarded business. For instance:

  > * In the U.K., the company had been using about 50 carriers. During the bid analysis process, the company found that the most cost-effective combination would be to rationalize that down to eight carriers. However, analysis also showed that it would be only slightly more expensive to use just one carrier. The company decided to move to a single carrier for its U.K. operations to eliminate the administrative overhead of working with multiple carriers. There was initial concern at the company that if the transportation procurement process took a cost focus that service levels would go down, the company found that using the single carrier not only saved money but also improved service.
  >
  > * The company had a very different experience with some of its product lines in the Netherlands and France. The company found it could achieve 20% freight savings if it used three carriers but would receive no savings at all if it awarded all the business to a single carrier.

  The company has also moved to a closed-loop procurement process. The best-of-breed procurement system is loaded with real shipment information, enabling the company to view performance metrics, identify wait time or other service issues, and conduct root cause analysis (e.g., have delays been caused by a customer or a carrier?). Carriers can also come into the system to view shipment activity and discover how the company's distribution network is developing. ***Carriers can then proactively offer to bid*** on those parts of the network for which they feel they can offer lower-cost service – they don't have to wait for a formal RFQ process.

Chapter Three: Freight Audit & Payment Best Practices

Key Takeaways

- 73% of respondents report that more than half their freight bills are still paper based.
- Half of companies with freight spend between $25 million and $100 million plan to implement a *new* technology system or module for freight audit & payment.
- 87% of the Best in Class have or plan to implement a formal root cause analysis process for repeated invoice errors.

Freight audit and payment is managed "out of sight, out of mind" by many companies. It may be handled by a back-office accounts payable function or outsourced to an audit & payment specialist.

Interviews with respondents show that some organizations have been able to reduce measurably their freight spend through tighter freight audit processes. "We immediately had $250,000 in savings recouped from invoicing errors for 'double billed' containers," reported one company.

Best in Class Payment Differences

Many Best in Class companies have moved to a more automated and closed-loop process for freight payment & audit:

- Best in Class companies are 1.4X as likely to have online collaboration with carriers for invoice exception handling.
- Fully 87% of the Best in Class have or plan to implement a formal root cause analysis process for repeated invoice errors.
- The Best in Class are 2X as likely to support paper-to-electronic conversion of invoices (e.g., OCR).

The Real Breakthroughs in Freight Audit & Payment

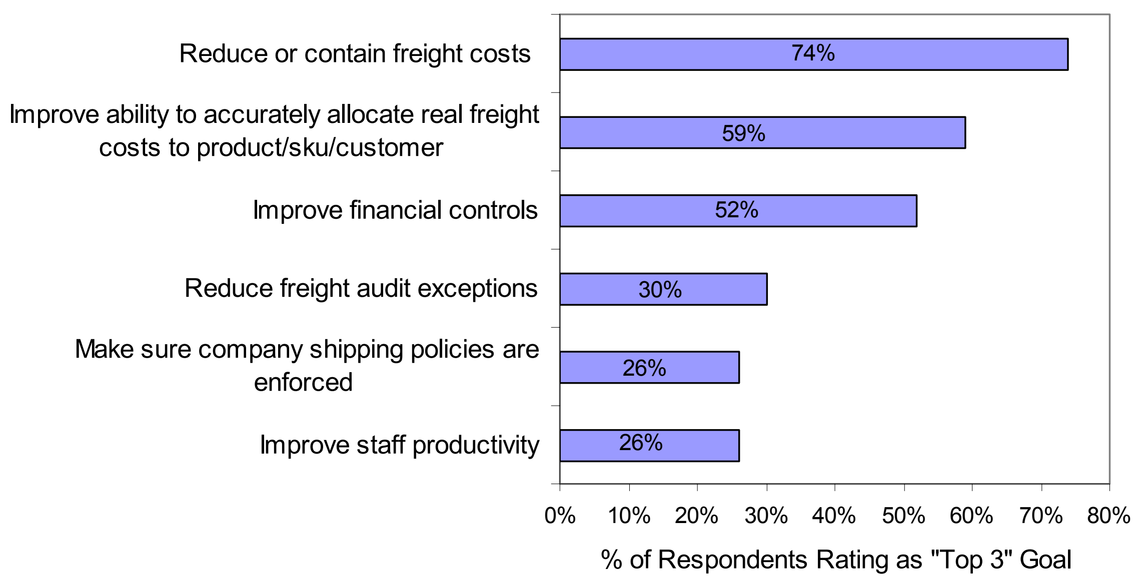
The real breakthroughs are emerging from companies creating closed-loop spend management processes. In these programs, efficient and visible freight audit & payment processes help companies:

- **Avoid overpayment.** Well-run programs ensure the company pays only for the transportation services it receives, in compliance with the freight contract.
- **Improve transportation procurement.** Creating a closed-loop spend management process requires that the freight payment group can provide reports and up-to-date data in an easily accessible format for spend analysis and bid preparation activity. This can help the company negotiate better rates and more favorable accessorial charges.

- **Make better cost-related business decisions**. Companies need to ensure their freight payment system can allocate freight costs at a granular level (including accessorials) to customers, product family/products, and business units. This information is vital to determine total landed costs, the cost to serve a customer, and so on. Inaccurate freight cost information can trigger a ripple effect of improper decisions in pricing, product investment strategies, distribution network design, and sourcing strategies.
- **Curtail maverick spend.** A well-run program will rapidly alert the organization to off-plan spend (e.g., shipments not using the preferred carrier, mode, or service level), so preventive action can be taken.
- **Improve transportation performance.** Mining data on on-time delivery, damages, and so on can alert the logistics and procurement staff to carrier performance issues. Just as important, this information can alert the company to internal or trading partner performance issues such as detention charges for long driver turnaround times at a facility. Freight payment data can also be mined to unveil consolidation and pooling opportunities, more effective use of private fleets, etc.
- **Midcourse opportunity identification.** Freight payment information can also alert the company about freight spend trends to support a more dynamic procurement process (e.g., increased volume of shipments along a lane making it possible to renegotiate lower rates).

As Figure 7 shows, containing freight costs and improving allocation capabilities are respondents' top two payment goals in 2007.

Figure 7: Top Goals for Freight Audit & Payment Improvement



Source: AberdeenGroup, February 2007

Outsourcing Trends: A Wakeup Call for Freight Audit Providers

Table 1 shows that companies currently outsourcing or considering outsourcing are doing so: (1) because they lack internal expertise in auditing the complexity of freight bills, including all the accessorial charges, and (2) because they view the activity as draining staff productivity.

Table 3: Why Companies Outsource Freight Audit & Payment

Key Reasons Outsourcing or Considering Outsourcing	% Selecting
Seek external expertise that we lack in-house	46%
Doing it internally takes up too much staff time and resources	46%
Need better visibility and control of audit and payment activities	38%
Seek easier accruals and spend analysis	26%
Believe pay too much for freight and want tighter audit processes	26%
We can only audit a small % of invoices internally	21%

Source: Aberdeen*Group*, February 2007

What Companies Want From Their Audit & Payment Outsourcers

Of those companies currently outsourcing, slightly less than half say these objectives have been effectively met in their outsourcing relationship. This is a wake-up call for the freight audit & payment outsourcing world. Respondents report that they want better quality information and improved visibility to the exact audit and payment criteria from their outsourcing providers.

Here's what a number of these respondents said when asked what else they would like to see from their freight audit & payment outsourcer to enhance their value:

- "Better reporting functionality" – Large electronic equipment supplier
- "Additional detail on accessorial charges" – Midsize building supplies company
- "Better response time and information" – Small manufacturer
- "Recommendations on further improvements to save cost" – large high tech firm

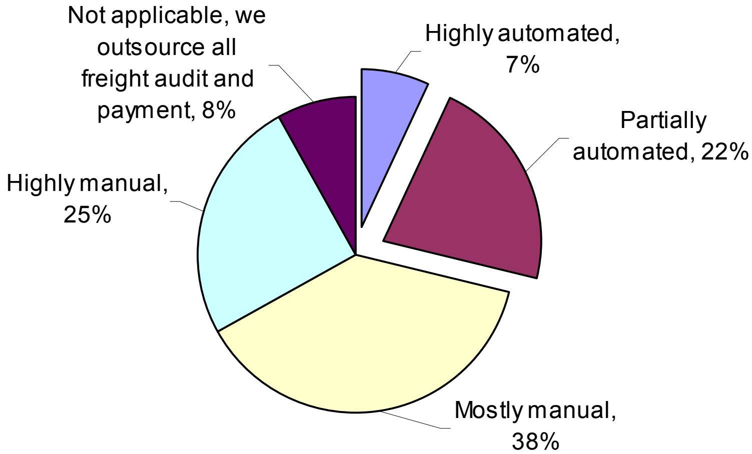
As a result, freight audit & payment companies that have invested in a technology backbone that supports online status and flexible, real-time reporting have a significant opportunity to gain business at the expense of their technology-challenged peers. Likewise, companies evaluating freight audit & payment companies should place a high priority on information quality when making their outsourcing decisions.

Internal Freight Audit & Payment Trends

Most companies believe it costs them around US$10 to process a freight invoice. On average, survey respondents report that they had an average of 32,000 invoices a year to process. Automation of the process is still the exception rather than the rule. For instance, 73% say that more than half their freight bills are paper based.

Figure 8 shows that just 7% of companies report a highly automated process for managing freight payment & audit internally. In our study, doing freight payment automation for automation sake did not correlate to significantly better cost performance – the results suggest automation is most worthwhile for companies when combined with a closed-loop spend management process. The exception are those organizations with 50,000 or more freight invoices to process a year, in which case headcount reduction from automation can be significant.

Figure 8: Internal Freight Audit & Payment: Manual Processes Dominate



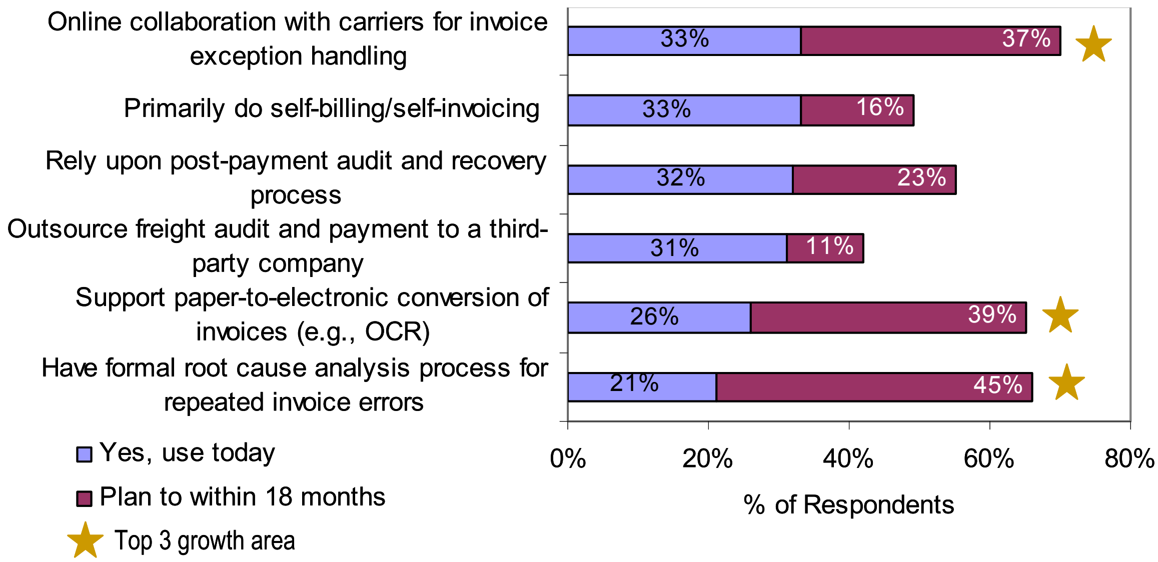
Source: AberdeenGroup, February 2007

A third of companies audit more than 75% of their freight bills, while 39% audit less than a quarter of their bills.

Automation & Root Cause Analysis Are Top Trends

To improve their freight audit & payment processes, companies are planning to implement more formal root cause analysis, support online invoice collaboration with carriers, and carry out paper-to-electronic invoice conversion. Today, a third or fewer of companies are supporting these processes (Figure 9).

Figure 9: Freight Audit & Payment Process Innovations

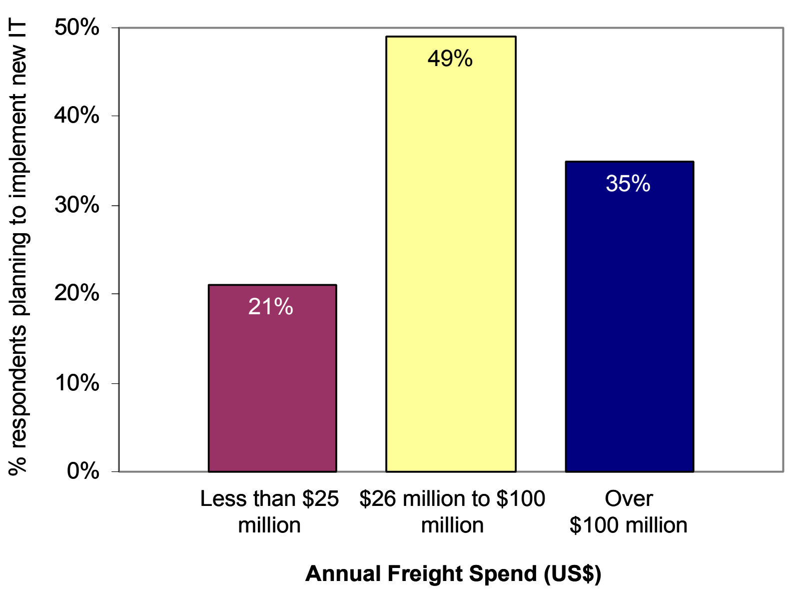


Source: AberdeenGroup,February 2007

Technology Adoption Plans for Freight Audit & Payment

About 25% of all respondents say they plan to implement a *new* technology system or module of an existing system for freight audit & payment in the next 24 months. For companies with freight spend between $25million and $100 million this figure jumps up to 49% (Figure 10).

Figure 10: Audit/Payment Technology Implementation Plans, by Freight Spend



Source: AberdeenGroup, February 2007

Chapter Four: Recommendations for Action

Key Takeaways

- Laggards should centralize procurement and evolve beyond manual processes and spreadsheets.
- Industry Average companies should implement a formal spend management process and encourage more innovation in their carriers' bid responses.
- Best in Class companies should mine spend management data to improve cross-functional business decisions.

Cost reduction, supply chain performance improvement, and productivity benefits await firms committed to improving their transportation procurement and payment processes. Firms believe they can reduce freight costs by 8.8% with a more sophisticated procurement or payment approach; Best in Class results support this view.

Table 4 outlines the primary differences between Best in Class, Industry Average, and Laggard companies. Use this table to assess your organization's maturity level in each of the four dimensions. Following the table are recommendations for action based on a company's current maturity stage. Companies should ensure that at the heart of their strategy are: (1) an emphasis on centralizing procurement decisions, and (2) a strategic direction to create a closed-loop spend analysis process.

Table 4: Transportation Procurement & Payment Competitive Framework

	Laggards	Industry Average	Best in Class
Process	• Disconnected and highly manual procurement and payment processes	• Some closed-loop spend management processes, but manually intensive	• Closed-loop, automated spend management process
Organization	• Local/divisional procurement or logistics groups oversee freight spend	• Corporate logistics or procurement team oversees less than 75% of freight spend	• Corporate logistics or procurement team oversees 75-100% of freight spend
Tactics	• Often renew contracts without formal RFQ process	• Use standard RFQ process that does not encourage carrier innovation	• Let carriers bundle and unbundle lanes in their bid responses and use multiple bidding rounds
Technology	• Manual-based processes	• Spreadsheet-based "solutions"	• Application for spend analysis and RFQ management (and for large companies, formal bid optimization tools)

Source: Aberdeen*Group*, February 2007

Laggard Steps to Success

1. *Centralize procurement for high-volume activity*

   Companies overwhelmingly cite procurement centralization as having the greatest impact on their ability to reduce transportation costs. Rapidly move to this model to gain the volume buying advantages centralization brings.

2. *Start phasing out paper- and spreadsheet-based processes*

   Many options exist today to create a more automated and online process for procurement and payment. Evaluate your transportation management system, corporate procurement application, and specialized procurement applications for their capabilities. Implementing automation will force your organization to get its data in order, including up-to-date freight contracts, accurate routing guides, and improved budget forecasting and freight accrual information.

3. *Audit more of your freight invoices*

   If you lack the resources in-house, seek the services of a freight audit or post-payment recovery company. Seek providers that have the technology sophistication to provide you with timely reports and data feeds; these will be critical in future spend management processes as your organization matures.

Industry Average Steps to Success

1. *Implement a formal spend management process*

   Institute corporate discipline and best practice processes around each step of the spend management framework. The feedback loop between the freight audit & payment process and the spend analysis and negotiation process is a critical ingredient for spend control. If spend management is effectively done in other corporate spend categories, ensure that knowledge is transferred to the transportation function. To support this process, consider implementing a spend analytics application.

2. *Move to standardize the format or RFQ responses, but drive more innovation into the transportation procurement process*

   Require carriers to put their RFPs in common formats (online RFQ tools help immensely with this) so that you can do apples-to-apples comparisons of responses. Although you want to standardize response formats, look to increase response innovation. Leverage procurement technology to support multiple bidding rounds with carriers and enable them to bundle and unbundle lanes in their bid responses. Such activity often leads to surprising results on which carriers to use and how many.

3. *Improve your bid optimization capabilities*

   Hand-in-hand with encouraging bid response innovation is employing bid optimization tools. Companies with freight spend of more than US$50 million with average to high degrees of supply chain complexity will find these tools highly helpful in analyzing bid responses and maximizing the value of multiple bid rounds.

Best in Class Next Steps

1. *Focus on closed-loop spend management*

   Create tighter feedback loops among transportation procurement, planning and execution, and payment processes. Increase the use of alerts and scorecards to help staff efficiently identify cost leakage, service issues, and emerging savings opportunities. Move to "straight-through processing" – in which a freight RFQ is electronically converted into a freight contract, into an audit-quality rate table in the transportation rate database for transportation planning, execution, and audit processes, and actual transportation activity and payment data is fed back into the spend analysis system.

2. *Consider online invoice collaboration with carriers*

   Best in Class companies are ensuring that 75-100% of their freight bills are audited. To streamline this process, move to electronic invoices (use OCR technology for freight bills that cannot be sent electronically). To reduce dispute time and effort, consider online invoice collaboration with carriers (this can be supported via an internal audit and payment process or through more advanced third-party audit and payment firms.

3. *Leverage spend management data to improve cross-functional business decisions*

   Transportation spend information is vital to determine total landed costs, the cost to serve a customer, product line and business unit profitability, and so on. Ensure that your freight payment system can allocate freight costs at a granular level (including accessorials) to customer, product family/product, business unit, etc. Provide online visibility to freight spend information to all parts of your organization that can benefit from it, including product development, strategic sourcing, corporate strategy, supply chain, sales and marketing, and finance.

Send to a Friend

Featured Underwriters

CombineNet is *the* advanced sourcing technology company. CombineNet's optimization-driven solutions deliver the absolute best total cost of transportation, materials and services based on the buying organization's unique business needs while significantly increasing the speed and efficiency of the sourcing cycle. The company has extensive expertise in the sourcing of direct and indirect materials, transportation and services for CPG, manufacturing and retail companies through its North American, Asian and European offices. More than 50 of the top Global 1000 companies use CombineNet for their most advanced strategic sourcing activities, with an average return on investment of more than 45x.

PowerTrack provides trusted outsourced payment solutions for freight, telecom, utilities, and general accounts payable. Global companies seeking to eliminate expenses while increasing fiscal control and business intelligence rely upon PowerTrack to make millions of electronic business-to-business payments each year in currencies around the world. Efficient invoice delivery and receipt, prepayment audits, automated approvals, electronic settlement, and integrated trade financing make PowerTrack the leading choice in A/P outsourcing.

Precision Software offers Global Supply Chain Execution solutions to move your goods and your bottom line. From one system, Precision's TRAXi3 provides multi-carrier shipping & transportation management, global trade documentation, regulatory compliance and freight bill audit & approval capabilities. TRAXi3 is open, integrated and middleware enabled. It is suitable for mid – size to multinational companies with multiple locations and language requirements. TRAXi3 is a proven solution that can fulfill all of your transportation needs, from any where, to anywhere, production or non-production.

ControlPay

ControlPay is a freight audit solutions provider. We provide a unique concept to multinational shippers by offering a solution ranging from transport order management to complete administrative and financial settlement. This fully web based solution has already been successfully implemented at multinational shippers like Avery Dennison, PPG Coatings, Gillette, Bridgestone and Philips. ControlBilling is our core competence. We do it better than anyone else, even you! ControlPay is a trustworthy third party between Shipper and Carrier, which is proved by our SOX-compliance and SAS-70 reports. So, leave your freight invoice auditing to ControlPay: leave it to the professionals!

data2logistics

A PLATINUM EQUITY COMPANY

Data2Logistics (www.data2Logistics.com) recovers controls and reduces transportation costs through accurate pre-audit, timely payment and actionable Business Intelligence information. We have over three decades of experience as a single source vendor processing all modes of transportation including air, surface, small package, ocean and rail. We operate in a collaborative environment with clients to create solutions to best meet their transportation information needs. Our web based tools provide easy access to a comprehensive database. Using cutting edge technology and their expertise our Business Intelligence professionals can support your transportation procurement function; monitor carrier performance and control maverick spending. You can count on Data2Logistics for timely innovative solutions that deliver superior customer service and measurable value.

Sponsor Directory

CombineNet Inc.

CombineNet Inc.

Fifteen 27th Street

Pittsburgh, PA 15222

412-471-8200

www.combinenet.com

info@combinenet.com

PowerTrack

- B2B Payment Outsourcing -

200 South Sixth Street

Mail Stop: EP-MN-L27C

Minneapolis, MN 55402

800-925-4324

info@powertrack.com

www.powertrackglobal.com

Precision Software

Precision Software

651 W. Washington Blvd,. Suite 303

Chicago, IL 60661

(T) 312.334.8600 (F) 312.334.8606

www.precisionsoftware.com

info@precisionsoftware.com

ControlPay

Claudius Prinsenlaan 138a

4818 CP Breda Netherlands

+31(0)76 5991590

www.controlpay.com

info@controlpay.com

Data2Logistics

4310 Metro Parkway

Fort Myers FL 33916

609.683.3917

www.data2logistics.com

harold.friedman@data2logistics.com

Author Profile

Beth Enslow
Senior Vice President, Enterprise Research
Aberdeen*Group*, Inc.

Beth Enslow is senior vice president of enterprise research for Aberdeen*Group*. Enslow benchmarks and advises companies on how they can reshape their supply chain, global trade, and transportation processes and technology strategies to drive business value.

Prior to joining Aberdeen*Group*, Enslow was senior vice president of strategic development for Descartes Systems Group, a global supply chain software company. At Descartes, she led initiatives in such areas as RFID, wireless-enabled delivery, and inventory performance management. Before that, Enslow was research director at Gartner, Inc., where she ran its supply chain planning and logistics advisory practice on a global basis. She has worked for a number of other research and consulting organizations, including the Conference Board, a leading business think tank and economic forecasting organization. Enslow is also a lecturer on supply chain technology and supply chain finance at the Center for Supply Chain and Logistics Management at York University's Schulich School of Business in Toronto.

Appendix A:
Research Methodology

In February 2007, Aberdeen Group, in conjunction with *Purchasing Magazine,* examined the transportation procurement and payment practices and strategies of 380 enterprises.

Responding supply chain, logistics, procurement, and finance executives completed an online survey that included questions designed to determine the following:

- How transportation procurement and payment practices impact corporate performance and financial results
- The structure and effectiveness of existing transportation procurement and payment procedures
- Current and planned use of automation and outsourcing to aid these activities
- The benefits gained from transportation procurement and payment initiatives

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on transportation procurement and payment strategies, experiences, and results.

The study aimed to identify emerging best practices for transportation procurement and payment and provide a framework by which readers could assess their own capabilities.

Responding enterprises included the following:

- ***Job title/function****:* About half of respondents are in their company's supply chain or logistics organization and half are in the procurement organization.
- ***Geography****:* Most study respondents are from North America (82%). Remaining respondents were from Europe and the Asia-Pacific region.
- ***Company size****:* About 32% of respondents are from large enterprises (annual revenues above US$1 billion); 42% are from midsize enterprises (annual revenues between $50 million and $1 billion); and 26% of respondents are from small businesses (annual revenues of $50 million or less).
- ***Freight spend****:* Roughly 27% of companies have freight spend over US$50 million, 28% have freight spend between $10 million to $50 million, and 45% have freight spend under $10 million.

Appendix B:
Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- Transportation Management Benchmark Report (September 2006)
- Solution Provider Guide for Transportation Management Systems (September 2006)
- Transportation Management: TMS Innovations to Meet Today's Fresh Priorities (September 2006)
- Global Supply Chain Benchmark Report (June 2006)
- Best Practices in International Logistics (January 2006)
- Best Practices in Transportation Management (June 2005)
- Creating a "Carrier Friendly" Program to Gain Control of Rates and Capacity (April 2005)

Information on these and any other Aberdeen publications can be found at www.Aberdeen.com.

Aberdeen Group, Inc.
260 Franklin Street
Boston, Massachusetts
02110-3112
USA

Telephone: 617 723 7890
Fax: 617 723 7897
www.aberdeen.com

February 2007

Founded in 1988, Aberdeen Group is the technology-driven research destination of choice for the global business executive. Aberdeen Group has over 100,000 research members in over 36 countries around the world that both participate in and direct the most comprehensive technology-driven value chain research in the market. Through its continued fact-based research, benchmarking, and actionable analysis, Aberdeen Group offers global business and technology executives a unique mix of actionable research, KPIs, tools, and services.

THIS DOCUMENT IS FOR ELECTRONIC DELIVERY ONLY

The following acts are strictly prohibited:

- **Reproduction for Sale**
- **Transmittal via the Internet**

Terms and Conditions

Usage Tips

Report viewing in this PDF format offers several benefits:

- **Table of Contents:** A dynamic Table of Contents (TOC) helps you navigate through the report. Simply select "Show Bookmarks" from the "Windows" menu, or click on the bookmark icon (fourth icon from the left on the standard toolbar) to access this feature. The TOC is both expandable and collapsible; simply click on the plus sign to the left of the chapter titles listed in the TOC. This feature enables you to change your view of the TOC, depending on whether you would rather see an overview of the report or focus on any given chapter in greater depth.
- **Scroll Bar:** Another online navigation feature can be accessed from the scroll bar to the right of your document window. By dragging the scroll bar, you can easily navigate through the entire document page by page. If you continue to press the mouse button while dragging the scroll bar, Acrobat Reader will list each page number as you scroll. This feature is helpful if you are searching for a specific page reference.
- **Text-Based Searching:** The PDF format also offers online text-based searching capabilities. This can be a great asset if you are searching for references to a specific type of technology or any other elements within the report.
- **Reader Guide:** To further explore the benefits of the PDF file format, please consult the Reader Guide available from the Help menu.