Tear Down This Wall!

Part 1 of 3: The Untapped Power of Purchasing and Logistics Collaboration

ArrowStream

[INTRODUCTION]

You've tried everything.

You have implemented a sophisticated transportation management system (TMS), established a strategic bidding process to beat market carrier rates, and utilized optimization technologies to find more freight consolidations and shift LTL to Full Truckload. You have also looked into pooling or cross dock usage, worked with carriers to create loops or continuous moves, and maximized usage of your backhaul; maybe you have even turned yourself into a carrier to fill the remaining empty trucks in your fleet.

After optimizing your logistics in the traditional ways, you are still tasked with finding additional savings. Where do you turn?

Unfortunately, the strategies for savings improvement have gone stale. There have been few, if any, truly game-changing ideas in logistics in years. Organizations have sought better tools, better people, better leverage, and occasionally been favored by better markets, enabling some incremental year-over-year value. However, the rules of the game in logistics have remained the same:

- Fill the truck
- Avoid empty trailers
- Negotiate the best carrier rates
- Hope the market becomes a little kinder.

Fortunately, you don't just work in Logistics. You work in *Inbound Logistics*. You can change the rules of the game.

This whitepaper is the first in a three part series that will describe an achievable strategy for inbound logistics organizations to elevate freight savings by 20-30%, through a collaborative, technology-enabled approach to Logistics and Purchasing planning. The approach is more than a new set of tactics - *it is a paradigm shift*. It moves away from a traditional model that tends to mimic an outbound logistics program, and instead moves toward one that extracts the full value of inbound freight control.

Part 1 of the series will introduce this paradigm shift and describe the challenges and opportunities that supply chain organizations face in the collaborative approach. Part 2 will focus on sizing the savings opportunities. Part 3 will describe the processes and technologies required to capture these savings.

Supply chain organizations that have implemented this approach have seen dramatic results:

- **30%** **Increase in Logistics Savings**
- **10%** **Decrease in Carbon Footprint**
- **5%** **Increase in Dock Capacity**
- **2-5%** **Reduction in Inventory**

The Power of Inbound Freight Control

Inbound Logistics is a different animal from Outbound Logistics. We know this. It has its own name. It even has a periodical devoted to it. However, it is worth highlighting the differences to better understand how a unique collaborative approach can unlock a different level of savings in an Inbound Freight program:

- **Inbound Freight Management has a revenue component that originates in the freight allowances on products provided by the shipper.** If the Logistics team can source carriers at a rate lower than the allowances, then Inbound Logistics will become a profit center by earning income on lanes taken from shippers. Therefore, load profitability and total landed cost are the most critical metrics requiring management in Inbound Logistics. The traditional barometer of logistics performance freight cost reduction only tells half of the story. The remaining story must be told at an item-level. Logistics income is impacted by SKU-level freight allowances, which may or may not reflect true manufacturer freight costs, and by the mix of items on the truck. Item-level visibility is a valuable asset while managing inbound freight and pursuing lowest total landed cost.

- **Inbound Freight programs can largely be selective in the lanes they convert to their management.** Smart and successful Inbound Freight programs recognize that they can strategically choose which lanes they should or should not manage. They are able to make these strategic decisions with effective monitoring of lane profitability, which allows Inbound Logistics departments to build the network they want, rather than manage the network they were given. However, in practice, organizations struggle to match daily load planning to the network planning exercise that persuaded them to take over management of a freight lane. Proper synchronicity between these processes is important to deliver predictability of results in Inbound Freight.

- **Inbound Freight planners work in the same company as the buyers placing the orders.** The most critical element of the approach outlined in this whitepaper is *seizing the opportunity for collaboration between Purchasing and Logistics*. A collaborative relationship between these departments will result in consistent ordering guidelines that create routing efficiencies. Equipment utilization is the largest single driver of freight cost per case, and the largest single driver of equipment utilization is the buying pattern: how much is ordered, when it is ordered, and with what frequency orders are placed. Outbound shippers will attempt to influence purchasing behavior through order volume price breaks, and in some instances vendor managed inventory programs. However, Inbound Logistics has a far greater opportunity for true, broad-based collaboration with Purchasing that can result in the most cost-effective ordering behaviour.

The differences between Inbound and Outbound Logistics are not subtle. They are seismic. Inbound and Outbound Logistics are truly different business functions.

Unfortunately, technology providers have largely ignored the differences between them. Transportation management systems (TMS) purchased for inbound freight management are precisely the same systems purchased for outbound freight, and are implemented similarly. The systems do not give consideration to load profitability or per case analysis and few offer item-level visibility. Systems do not address the selective nature of the freight under management or the need to build synchronicity between network planning and load planning. Additionally these systems do not expose or manage the opportunities for collaboration between Logistics and Purchasing.

...the single largest driver of equipment utilization is the buying pattern: how much is ordered, when it is ordered, and with what frequency.

Put simply, in commercial TMS solutions, the world is seen through the lens of a manufacturer shipping outbound product. This is the arena in which the products have been developed and tested, and it represents the largest market segment their sales forces pursue.

As a result, Inbound Logistics personnel are forced to fit their processes within the mold of Outbound Logistics management, or struggle to change or augment capabilities of these outbound systems to meet their inbound objectives. Inbound Freight Managers with the most sophisticated TMS often have hard drives filled with enormous Excel® spreadsheets for logistics planning that are painstakingly recreated and reworked every quarter, month or sometimes every week.

Some of these gaps are more easily papered over than others. When it comes to collaboration between Purchasing and Logistics, most supply chain organizations' achievements are limited because they do not have the right tools. Absent a well-defined and technology-enabled platform for partnership, these highly inter-dependent functions remain at arm's length. This absence results in communication without collaboration, and conflicting incentives.

Savvy supply chain leaders know that there is opportunity in building a more synchronous and transparent supply chain. They seek to take better advantage of the control that makes inbound logistics a separate animal. They recognize that a more efficient, predictable and profitable supply chain model would be achievable, if only certain technological and organizational barriers could be overcome.

However, how should supply chain leaders proceed? The best and only first step is to quantify the savings that could be achieved.

Measure it or Miss it

Before any organization builds a collaboration process between Purchasing and Logistics, it should first quantify the associated savings. Without quantification of the savings, the nature of collaboration would be too nebulous, the impact too vague, and the agenda too broad. Only focused, specific and measurable process change will be sustainable. When it comes to locating and quantifying the savings potential, supply chain organizations should consider one of the differentiating aspects of inbound freight matters above all others: *control of the freight and control of the order reside in the same organization.*

"*What is the absolute minimum total landed cost that can be achieved by the combined order-to-delivery process, without putting customers at risk?*" Most Purchasing and Logistics teams do not have the means to answer.

Theoretically, the potential power of this dual control is easy to understand. After all, if logistics personnel placed the orders, every truck or railcar would be 100% utilized every time.

However, in the world of changing customer demand, short product shelf life, inventory carrying costs, and storage capacity constraints, separate purchasing and inventory control functions are required. Is there a middle ground where a deeper logistics savings consideration can become an integral part of purchasing operations? Most people in the industry would agree that if purchase orders are better aligned to more consistently fill trucks to capacity and minimize miles driven, logistics costs would improve. However, most purchasing and replenishment systems only consider freight costs at the most rudimentary levels.

The question that all supply chain leaders should routinely ask is, "What is the absolute minimum total landed cost that can be achieved by the combined order-to-delivery process, without putting customers at risk?" Most Purchasing and Logistics teams do not have the means to answer.

We do know one thing. Without quantifying the savings at stake in this equation, hard-line assumptions take hold between Purchasing and Logistics organizations that prevent any serious effort to grapple with the opportunity:

- **Assumption 1:** Purchasing needs no further guidance. Our Buyers already try to order in full truckloads wherever they can.
- **Assumption 2:** Requests for order pattern changes from Logistics will generally be infeasible, as they do not consider customer demand.
- **Assumption 3:** Since logistics savings are based on freight consolidation, every attempt to save in freight costs will come at the expense of inventory levels.

These assumptions come to rule the relationship between Purchasing and Logistics. As is often the case with deeply embedded assumptions, they can be self-fulfilling and can squash any momentum to fully collaborate in driving savings, thereby limiting logistics to offer only the most rudimentary and uninformed purchasing guidelines, which only appear to further prove out the assumptions. The purchasing guidelines, born in the manual spreadsheet manipulations of a logistics engineer, tend only to increase order sizes and reduce inventory turns. The results are at immediate odds with the performance metrics of Purchasing, and often create an order alignment that could increase the risk of stock outs. In practice, a few vendors may be found that both sides agree can be regularly scheduled to deliver simultaneously, but even these requests from logistics are frequently ignored in favor of daily decision-making on the part of the buyer.

The cycle of un-collaborative behavior between Purchasing and Logistics will only be broken when supply chain organizations understand the compelling savings they can unlock through collaboration.

In Part 2 of this series, we will quantify the value of collaboration between Inbound Logistics and Purchasing.

About ArrowStream

ArrowStream is a leading provider of dynamic and results-driven supply chain technology and services. Our proven supply chain solutions give businesses end-to-end, real-time supply chain data and visibility that better supports strategic decision-making, improves operations and reduces costs.

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