



Tear Down This Wall!

*Part 2 of 3: Sizing the Savings Opportunity in
Purchasing and Logistics Collaboration*

ArrowStream

The Power of Collaboration

Create NEW savings opportunities with Purchasing and Logistics

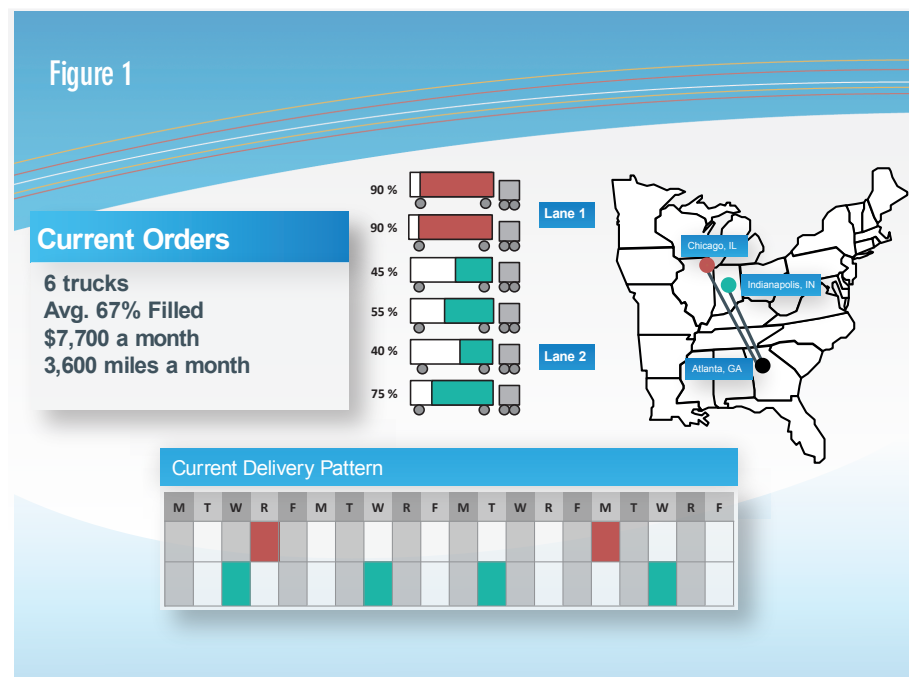
This whitepaper is the second in a three part series describing how supply chain organizations can achieve greater savings through technology-enabled collaboration between Purchasing and Logistics. Part 1, “The Untapped Power of Purchasing and Logistics Collaboration,” introduced a new way for Purchasing and Logistics to work together, focusing on opportunities and challenges that supply chain organizations face in this collaborative approach. Part 2 will focus on the results and scale of savings available through this approach.

In Part 1, we learned that the combined planning of replenishment and freight routing can result in a logistics savings increase of 20-30%, even within the most sophisticated supply chain organizations. Put in terms of cost reduction, this impact typically equates to a 7-10% reduction in total freight cost.

An increase in savings of that size is hard to ignore and will overshadow even the most aggressive year-over-year savings expectations for logistics. However, such significant results warrant a healthy suspicion. After all, how could such a simple notion of connecting Purchasing and Logistics silos drive results of this magnitude? If the opportunity is so large, why did this approach not emerge as standard supply chain strategy years ago? And finally, how can it be that these savings are not captured by current Transportation Management System (TMS) solutions?

This whitepaper will answer these questions and clarify this unique approach, using a real-world example.

Figure 1



Example

Figure 1 above represents the monthly flow of products in two sample freight lanes, in an environment without collaboration between Purchasing and Logistics:

Both freight lanes deliver product to the same facility, but the order patterns and delivery schedules are different. A Replenishment Buyer orders Lane 1 at near full truckload quantities, which ships twice per month. Lane 2 orders are placed in smaller quantities, as the product is required to be shipped at least four times per month.

These shipments fill an average of only 67% of the available trailer space, yet with traditional systems, neither the Replenishment Buyer nor the Logistics Planner would consider behaving differently. The Replenishment Buyer, mindful of freight cost impact, fills Lane 1 to near full truckload capacity, but cannot increase order sizes on Lane 2, due to product demand or shelf life constraints. Using TMS route optimization software, the Logistics Planner would ship Lane 1 as ordered, since it is considered full truckload, and would see no way to consolidate the freight on Lane 2. Logistics Engineers might approach Purchasing to place larger orders on Lane 2, only to be told that inventory turns cannot be decreased without risk of inventory obsolescence.

With both groups behaving “appropriately” according to their directives and incentives, it would be reasonable to think we are stuck with 67% utilization.

A second look, through a collaborative lens, shows otherwise. If ordering and routing options are considered *together*, a dramatic opportunity for increased freight efficiency emerges.

Figure 2 shows that we can scale down the truckload orders to free space to absorb Lane 2 into Lane 1. With synchronized order patterns and routing, the products now move in four full multi-stop truckloads per month. We have created a consolidation opportunity where one

did not previously exist by proactively considering freight cost upstream in replenishment. This new inbound flow eliminates significant freight costs, while it simultaneously reduces inventory levels by bringing in product more frequently. This achieves the following results:

- 20% Total Freight Cost Reduction
- 33% Increase in Overall Inventory Turns
- 33% Reduction in Dock Congestion
- 19% Reduction in Total Miles Driven

The freight cost reduction is astounding, and is completely incremental to savings achieved through the traditional means of carrier rate negotiation or opportunistic mode shifts.

The impact is also meaningful outside of logistics: Figure 2 shows that a supply chain can achieve freight savings while also improving key purchasing metrics, operational metrics, and overall carbon footprint. Call it a “win-win-win-win” – *that is the tangible power of a supply chain that connects organizational silos and acts as a single, integrated, proactive network.*

Part 1 introduced three assumptions under the traditional silo approach to Purchasing and Logistics that block deeper collaboration between these teams:

- *Assumption 1:* Purchasing needs no further guidance. Our Buyers already try to order in full truckloads whenever 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 increased inventory levels.



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 informs strategic decision making, improves operations and reduces costs.

For More Information:

312.676.0036 | info@arrowstream.com | www.ArrowStream.com

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