

Stop Buying Transportation. Procure It!

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team and is responsible for the growth and operating performance of BirdDog's non-asset based freight management division. In addition, Nieuwenhuizen leads new product development, marketing, and communication initiatives in support of the company's rapid growth. He received a Bachelor's of Science degree in Marketing and International Management from The Hague University in The Netherlands, and a Master's of Business Administration from Syracuse University.

In a perfect world, buying transportation would be just like buying a cell phone. You'd narrow down the right carrier based on your coverage and usage needs; easily compare prices by carrier and easy-to-understand service levels; pick your preferred equipment and add a few accessories; and further lower your cost by making a multi-year commitment. In the real world, buying transportation is not as easy. Coverage and service levels are not easily comparable across carriers and modes and pricing and contract terms and conditions in this industry are often as clear as mud. The average shipper experiences double digit increases in year-over-year transportation spend as a result

Be Better Than Average: Apply a Transportation Procurement Strategy

But who wants to be average? A 14% reduction in transportation costs and better visibility into transportation spend is within reach for all shippers. How? Not by simply buying transportation as most companies do today. Instead, apply a thorough transportation procurement strategy that includes the following components:

- 1. Business Strategy** — it seems obvious to say that your transportation procurement strategy should be closely tied to your overall business strategy. For example, fashion retailers and high-tech manufacturers rely heavily on air and overnight services to avoid costly stock outages and meet high service requirements, while discount retailers pursue lower cost transportation alternatives. However, in practice, execution is much more challenging. For example, do you have the resources and tools to manage execution internally, or should you consider leveraging third party logistics providers to help you achieve the service level objectives that ultimately allow you to meet your business objectives.
- 2. Data Analysis** — Going back to our cell phone analogy, you would not sign up with a cell phone carrier without knowing how many minutes you use, how many text messages you send, and where you use the phone. As obvious as this seems, this is where most shippers miss a great opportunity when negotiating transportation agreements. You won't stand a chance at the negotiation table without having a thorough understanding of your current shipping profile and environment: What do you ship? Where do you ship it to? How do you package your shipments? When do you ship? From where and in what quantities? The answers to all of these questions are essential. You'll be in a better negotiation position if you know exactly what you have to offer to the carrier. Accurately understanding your shipping profile enables you to present yourself to the carrier in a manner that puts your business in the best possible light. Acquiring this awareness requires access to detail-level shipping data, analyti-

cal tools, and the ability to package the data in presentable format.

- 3. Carriers' Pricing Strategy** — In the case of buying a cell phone, knowing your own needs is about all it takes to make a purchasing decision. In the case of transportation, knowing what you have to offer to the carrier is only half the battle. Having a deep understanding of how the carrier views your business from a profitability and operational standpoint is equally, if not more, important. This requires a thorough understanding of the carriers' cost structures and how those translate to their pricing strategies. Depending on the mode for which you are negotiating, this can be problematic. You may be able to get decent market insight for Truckload, but almost certainly won't for Parcel, for example.
- 4. Negotiation and Trade Strategies** — only once you have acquired this information can you confidently pull up a chair at the negotiating table. It is important to employ your shipping profile and knowledge about the carrier to formulate a strategy that targets the carriers' pressure points. Keep in mind which negotiation points are critical to you and those that you can use as leverage in a well planned trade/concession strategy. For example, few people recognize that in certain situations, you can attain double digit savings by giving in slightly on price in select areas in exchange for better terms and conditions.

Follow the Rules and Save

A procurement strategy following these proven rules will result in significant savings — hundreds of our customers can attest to this. So why don't most companies take this approach? Most seasoned negotiators will admit that they feel comfortable with the business strategy and to some extent the concepts of negotiation and trade strategy. Their biggest challenges come with analyzing and packaging data and in developing a thorough understanding of the carriers cost and pricing models. Even the most seasoned negotiators will admit that the tools, abilities, and knowledge to manage these components in transportation effectively are difficult to come by and very expensive to maintain.

Once agreements are in place, executing them poses a different challenge, especially in staff, technology, and resource constrained environments. There are many examples of shippers with great strategies and decent pricing agreements who are over-spending by 20% or more because they're unable to reinforce routing guides.

Over the next few months we'll dive deeper into this procurement model exploring exactly how it pertains to parcel, less-than-truckload, and truckload shipping providing you with a better understanding of the tangible benefits of applying this model to procuring — as opposed to just buying,— transportation.

In the meantime, I welcome your feedback and ideas at rnieuwenhuizen@birddog.com