

WHITE PAPER

BY LAND, SEA, OR AIR:

Navigating the Complexities of Carrier Analysis and Transportation Procurement with Advanced Sourcing

Most companies with strategic supply chains recognize the absolutely critical nature of their transportation operations. Without timely, efficient, and reliable delivery of raw materials, the company's production and other business operations can grind to a halt. The movement of finished goods en route to the customer also relies on timely and efficient shipping, to support customer requirements, inventory levels, and sales goals. The growing adoption of Advanced Sourcing Technologies, like CombineNet ASAP[®], within supply chain-intensive industries is improving the way companies source their transportation services, overcoming transportation procurement challenges to drive the highest level of value across their supply chains.

In this paper we will discuss the complexity inherent in transportation procurement, and share **seven (7) transportation sourcing best practices** that leverage advanced sourcing technology.

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THE COMPLEXITY OF TRANSPORTATION PROCUREMENT

For manufacturers, retailers, and other companies whose businesses rely on the movement of goods between suppliers, production facilities, distribution centers, and customers, the procurement of transportation services can be one their most complex and challenging sourcing activities.

Transportation represents a significant expense within a company's supply chain, directly affecting the cost of goods sold (COGS), without necessarily adding similar value to the product being delivered to the market. As such, transportation is an area of corporate spending that is under constant pressure for cost reductions.

The level of a product's success in the market is subject not only to its value to the end customer, but also to the efficient and reliable delivery of that product to the customer. Reducing the cost of transportation "by any means necessary" can have a negative effect on the entire supply chain, and there are many examples of cost cutting in transportation having a severely negative impact on the supply chain.

But it's not just the strategic nature of transportation that makes it a challenging service to procure. It is a combination of factors that, individually, may seem simple to manage, but collectively, can create a complexity not seen in other spend areas. Some of these factors include:

SIZE OF THE NETWORK

For supply chain-intensive companies, transportation networks can cover hundreds, even multiple thousands of lanes between individual origin and destination points, with dozens (sometimes hundreds) of potential suppliers (carriers, logistics service providers, etc.) interested in supporting their shipping needs.

A sourcing event designed to identify and contract with suppliers for a single mode across an expansive network can represent tens of thousands (sometimes hundreds of thousands) of individual bids from carriers competing for your transportation lanes. This alone can create a significant challenge in bid evaluation and comparison. Add to that the possibility of combining multiple modes, and the complexity grows exponentially.

CAPACITY

Transportation service is not an unlimited supply market. Trucking companies only have so many trucks, trailers, and drivers available to move your freight. Ocean liners have set sailing days between ports, and the ships on those lanes have a limited amount of container space available. So while one carrier may provide an attractive price point for your freight on an individual lane, they may not be able to support the entire freight volume with their limited capacity. Ensuring an adequate supply of transportation on high-volume lanes, especially during peak periods, across a variety of primary and secondary carriers poses another challenge for transportation procurement.

SERVICE

Not all transportation is created equal. Contrary to what some non-transportation professionals may think, transportation is not a commodity. Carriers have strengths and weaknesses, and their service levels will vary. On-time performance, safety, special handling, equipment, and even the differences in how easy they are to do business with, can impact your supply chain and transportation operations. Depending on the goods and materials they are carrying, different levels of service may be desired or even required on the lanes across your supply chain. Measuring how well carriers support your service level requirements adds another challenge to transportation sourcing.

STAKEHOLDER ALIGNMENT

The team procuring transportation services does not live in a vacuum. Stakeholders across the organization will be impacted by that team's sourcing decisions, whether those decisions are based on cost, service level, or past performance of awarded carriers. Such transportation stakeholders include shipping and receiving departments, supply chain managers, finance teams, and many others that likely have their own preferences and requirements for the carriers servicing the parts of the business that have an effect on their operations. Aligning the sometimes competing interests of these stakeholders can be the most challenging factor of all within transportation sourcing activities.

TRANSPORTATION SOURCING BEST PRACTICES

When selecting a solution provider to help you navigate those complexities and arrive at improved outcomes, you should be looking for someone with experience and proven results. CombineNet has gained considerable insight into transportation sourcing activities over the last decade-plus, working with and supporting customers in the procurement of more than \$10 Billion in annual transportation services across all modes. Many of our customers had historically conducted transportation sourcing activities using a range of strategies and technologies, from Microsoft Excel, to general-purpose e-procurement technologies, to e-sourcing modules within their Transportation Management Systems (TMS).

Often, it is because of the shortcomings they've experienced using those other technologies that have led them to adopt [CombineNet ASAP®](#) to support some of the following Best Practices in transportation sourcing.



AGGREGATING TRANSPORTATION SPENDS TO LEVERAGE YOUR NETWORK

Aggregating transportation spending into a consolidated sourcing event (typically by mode) is a trend that has taken on steam over the last decade. In doing so, carriers are able to more closely match their assets with your network, because they can see the total opportunity within your network. This approach also enables shippers to leverage the spend across their supply base, driving competition between carriers.

Unfortunately, most e-sourcing technologies, even those embedded within TMS solutions, are unable to support large sourcing events that present hundreds of items (lanes) to a large number of carriers for bidding. These solutions can adequately support spot bids, or even smaller events, but for sourcing teams aggregating their entire network into a single sourcing event, they often have to resort to Lotting strategies or Regional sourcing events (or alternatively, to collect and analyze the data in spreadsheets) to fit within the confines of their general purpose e-sourcing solution or TMS.

Lotting (where buyers combine lanes together by origin or region for bundled bidding) strategies limit a carrier's ability to bid on the lanes that make sense for their business. They may not have the assets in place to support all of the lanes in the Lot, or some of those lanes may not be financially attractive to them at competitive price points. This leads to hedged bids, where carriers provide pricing at the lot level that doesn't reflect their competitiveness on the lane level. Nobody knows a carrier's capabilities, assets, and capacity better than they do, and lotting effectively removes the carrier's ability to put their best foot forward in a sourcing activity.

Breaking networks into smaller, more manageable sizes, such as within Regional sourcing strategies, may remove the need to create Lots. But this strategy has two consequences. First, while regional carriers may see the entire opportunity within their geographical coverage area, national carriers aren't provided with the total picture of what is available to them, and reduces their competitiveness across your entire network. Second, conducting multiple sourcing events across multiple regions creates more work for the sourcing teams, where a network-wide sourcing event would enable them to move on to other value-added activities.

CombineNet ASAP has been used over the last decade to manage sourcing events that cover the largest transportation networks, generating the cost reduction and efficiency benefits of aggregated transportation sourcing for the largest shippers across all modes. CombineNet ASAP's ability to present and collect bids on an unlimited number of transportation lanes, from hundreds of carriers simultaneously, and analyze these bids to find the right balance of cost, risk and service, enables sourcing teams to source larger networks in a single event, increasing the productivity and efficiency of the sourcing team.



BALANCING RATES WITH SERVICE-LEVELS AND NON-PRICE FACTORS

It's one thing to get low rates on your shipments, it's quite another to ensure the service levels you need. Transportation buyers are focusing more on the non-price factors that can rank as high as costs on the priority scale for some lanes. Capturing and then fully evaluating a carrier's bid price and their non-price factors is a best practice for transportation sourcing, to help ensure that your transportation operations are providing the value you require.

Transit times, equipment types, on-time performance commitments, past performance history, O&D pairs and transshipments, fuel consumption and greenhouse gas emissions, special handling charges, and other accessorial: all of these are examples of price and non-price factors that are increasingly included in transportation bids.

However, this is another area where most e-sourcing technologies, and even TMS solutions, are ill-equipped to support transportation buyers. Developed with a focus on making award decisions based on low prices, these solutions have limitations on the type of data that can be collected as part of the bidding process. Even more limiting is their ability to analyze any non-price factors as part of the evaluation of the carrier's total value to your business.

Through CombineNet ASAP's [Expressive Bidding](#)[®] approach, sourcing teams can collect detailed price and non-price information from carriers through a flexible bid interface that enables carriers to bid "creatively" on the business and put their best foot forward on the business they want to win. One example of this is the ability to collect and analyze detailed cost breakdowns on everything from mode or equipment options, lead times, fuel surcharges, lane- and network-level capacity, to costs at the lane level, giving your team better insights into cost drivers.

Expressive Bidding also enables carriers to best leverage their assets and network, leveraging their business strategy through Conditional Offers and Packages that provide volume discounts and multi-stop routes through carriers' bundling of lanes.

In transportation procurement, the concept of total value using non-price factors isn't just used to evaluate a carrier's competitiveness on individual lanes. The preferences of various internal stakeholders can become extremely difficult to model as buyers evaluate all the carrier bid information. CombineNet ASAP not only allows sourcing teams to expand their RFI or RFP to collect more information through the bidding process, but lets them quickly create and apply tailored rules that show the various outcomes after these preferences are factored in to the decision process.

For example, certain locations in a transportation network may require specific equipment types for its service, or sourcing teams may want to favor (or penalize) carriers based on their historic levels of on-time performance. CombineNet makes it easy to run and compare scenarios with just a few mouse clicks – and evaluate the results of these preferences by providing the cost impact of local decisions on the entire transportation network. This fast, iterative scenario analysis, made possible by the [industry-leading optimization](#) engine at the core of CombineNet ASAP, saves significant time while improving stakeholder confidence in the award decision.



SECURING CAPACITY TO REDUCE RISK

Ensuring adequate capacity is consistently ranked near the top of the priority list for those involved in transportation procurement, as it should be. Contracting with a low-rate carrier means very little if that carrier doesn't have the capacity to service the entire volume on the shipping lane. Capturing a carrier's capacity on each lane as a non-price bid element helps transportation buyers ensure that they have the coverage they need during peak shipping times and throughout the year.

To reduce the risk of shipment turndowns and freight left on the loading dock, transportation buyers are placing more focus on carrier capacity commitments during the sourcing process. This is not really an option with most e-sourcing tools and TMS-based sourcing solutions, as they are poorly equipped to use capacity in the evaluation of carrier pricing. This requires transportation buyers to review carrier capacity and assign volume to carriers after the bidding is done and final negotiations are being conducted. This can significantly add to the timeframe for completing a sourcing event as the capacity negotiations can lead to re-evaluation of leading carriers as their true capacity becomes clear.

If capacity isn't secured as part of an annual procurement event, many shippers may find themselves scrambling for carriers to take loads, or needing to conduct spot bidding events to make up for capacity shortfalls. To mitigate this issue, CombineNet ASAP enables carriers to commit to capacity – at both the lane level and across the entire network – which can be modeled for peak and non-peak demand periods. This enables carriers to submit, as part of their bid, how much capacity they can offer on each lane, and also the total capacity they can commit at a region or network level. CombineNet ASAP uses this capacity information to ensure that you don't over-award business to a carrier that can't handle it. It can also help you ensure that you don't under-award a carrier, who may not feel that the small amount of business they are awarded is worth accepting.

CombineNet ASAP can also be used to encourage carriers to put in conditional pricing offers contingent on capacity commitments. For example, "I like this lane (or network), so if I am awarded these lanes (or this dollar amount), I'll discount my rates by an additional 4%." Carriers have the ability to bid more aggressively on their most desired lanes or pieces of the overall business using their capacity as a competitive advantage.



INCREASING CARRIER COMPETITION FOR RATE COMPRESSION

Conducting a sourcing event to capture competitive pricing from carriers is a good strategy for reducing rates, but all too often the distance between a lane's low-cost carrier and other carriers creates a significant price delta between the primary and secondary carriers needed to support the full volume on a shipping lane.

Especially on high-volume lanes, the favored outcome is price compression between carriers so that the shipments awarded to the primary carrier have a small deviation in price compared to the secondary carriers. Otherwise, only a portion of your shipments will reflect a competitive price, while the remaining shipments may present your business with a significantly higher annual cost.

Real-time feedback provided to carriers on multiple price and non-price bid components can guide them to more competitive and strategic responses, driving price compression without sacrificing service levels such as transit time or capacity.

Another major way the CombineNet ASAP sourcing solution helps your transportation sourcing team drive down costs is through the use of our [Expressive Feedback](#) capabilities. With Expressive Feedback, sourcing teams communicate with carriers during the e-sourcing event in real time to provide guidance on their competitiveness on both price and non-price factors. With feedback on lane-level pricing and competitiveness, carriers can see where they stand in relation to the other carriers bidding on each lane, and adjust their pricing to be more competitive. Other types of feedback in CombineNet ASAP enable sourcing teams to alert carriers to other opportunities to participate more competitively on business, through the use of Expressive Bidding features like volume-based Conditional Offers.

The result of this feedback is the development of greater competition between carriers in the sourcing event, which leads to price compression between carriers on high volume lanes and other lanes where the sourcing team will be awarding business to primary and secondary carriers.



EVALUATING THE IMPACT OF REGIONAL AND LANE-LEVEL DECISIONS ON THE NETWORK

If individual stakeholders had their druthers, they'd likely opt to continue doing business with their incumbent carriers for a high percentage of their shipments. While an incumbency-awarding strategy makes sense from a continuity perspective, and can better align stakeholders with sourcing decisions, it can lead to a net-negative impact across the remainder of the entire supply chain.

Transportation buyers are putting more effort into the evaluation of the impact of local preferences and requirements against the goals of the network-wide sourcing strategy. More competitive rates with similar service levels and adequate capacity from new carriers, or carriers that are currently servicing other parts of the network, may provide a better overall sourcing solution than what is preferred by local stakeholders.

But to get buy-in from those stakeholders, they have to understand the impact of their preferences on the network as a whole. Providing an objective, fact-based evaluation of the cost impact of different award scenarios enables the sourcing team and those stakeholders to quickly align the goals of the entire organization with those of the individual stakeholder. This requires fast, iterative "What if?" award scenario analysis that enables teams to create, evaluate, modify, and re-evaluate award scenarios that reflect the individual stakeholder's preferences and show them the costs of their decisions. Most organizations attempt to do this using customized Microsoft Excel spreadsheets, as their e-sourcing technology or TMS-based solutions lack the analytical ability to quickly create and review these types of award scenarios.

For transportation teams that are looking to reduce the number of carriers in their transportation network, or introduce new or alternative sources to help with capacity, cost reductions, or geographic coverage, CombineNet ASAP helps rationalize and optimize the carrier base to get the right mix of carriers servicing the right lanes. Through an online RFI and RFP in CombineNet ASAP, buyers can collect more information about carriers, including detailed cost breakdowns that comprise total cost, and then use that data to create a variety of scenarios to rationalize the carrier base.

For example, "What would happen if I reduce my carriers from 50 to 40?" Or, "What would the award look like if I added new carriers to give me alternative sources of supply?" Or, "What if I favored these incumbents or carriers by 15%, or awarded them with these specific lanes?" CombineNet ASAP quickly evaluates these scenarios and gives the buying team better insights to make decisions about which carriers to use, for what, and when.



UNDERSTANDING OPTIONS FOR MODE SHIFTING

Shipping Truckload freight via Intermodal? Shifting Airfreight shipments to Ocean carriage? These options can reduce costs, but mode shifting isn't the right answer for all of your freight.

Yet, there are cases of transportation sourcing teams evaluating mode shifting options for lanes where transit times aren't as firm, or where portions of the volume can be split between different modes without negatively impacting inventory or delivery requirements.

Mode shifting strategies are being evaluated in sourcing events more frequently, as more companies adopt advanced sourcing solutions that provide the bidding flexibility and analysis capabilities not found in general purpose e-sourcing technologies and TMS solutions.

In evaluating mode shifting options, transportation sourcing teams are often reviewing not only cost reduction opportunities, but also the impact of the mode shift on their supply chain operations. Transit time can have an effect not only on delivery schedules and available inventory, but also inventory holding costs, product quality (e.g.: perishables and seasonal items), and lead time. The special handling capabilities of carriers in different modes must also be evaluated, as product damage, accessorial costs, and touches will vary as the mode is changed. Depending on your business and requirements, mode shifting may be worth evaluating on some of your shipments.

As companies look at the cost-saving opportunities that could result from mode shifting on certain parts of the transportation network, they need to consider all the trade offs and possible risks associated with such decisions during the sourcing process. And the unique bidding and analytical capabilities of CombineNet ASAP enable sourcing teams to collect and analyze data to learn how those decisions affect costs, transit time, material handling, and other factors. For example, when shifting more of the business from air freight to ocean or ground transportation, CombineNet ASAP allows buyers to compare award scenarios by looking at different modes on the same lane, so that they can make decisions on which lanes are best suited for mode switching and what the impact on the supply chain will be.



REDUCING SOURCING CYCLE TIMES AND IMPLEMENTING RESULTS QUICKLY

A decade ago, a large, network-wide ground freight sourcing event may have easily taken six months or more to complete. Because of the time and effort involved, and the relative stability of rates, contracts were often committed to for a period of two years or more.

With today's changing transportation landscape, companies are typically contracting with carriers for 1 year terms. The resistance to spend six months on these sourcing projects on an annual basis has driven a search for solutions that allow the team to complete sourcing events in much less time, and the use of more advanced e-sourcing technology solutions like CombineNet ASAP has helped reduce the project timeframe by 40-50%, even for very large events with thousands of lanes and hundreds of bidding carriers.

Companies benefit from shorter timeframes not only in manpower reductions (and the resulting activities on which internal resources now have the time to focus their efforts), but also the shorter cycle under which they can effectively implement contracts and begin shipping on the newly negotiated rates.

Reduction of this cycle has largely come by way of better analytical capabilities. Especially for large sourcing events, a large portion of the cycle time was spent analyzing the volume of carrier bid data and identifying the award decision. Unfortunately, for teams still relying on Excel-based analytics activities, this cycle has not been reduced to the extent that it has for users of advanced sourcing technologies with optimization-driven bid analysis.

CombineNet ASAP saves transportation and logistics procurement teams significant time in collecting, aggregating, cleansing, and comparing carrier RFI and RFP response data, by handling all of that work through a centralized, easy-to-use product interface. And with its 21 U.S. patents, CombineNet leads the pack in data analysis and optimization capabilities – all leading to why so many Global 2000 and 3PL companies use us to support these critical spend areas.

ADVANCED SOURCING TECHNOLOGY: CASE STUDIES IN TRANSPORTATION SOURCING EXCELLENCE

CombineNet ASAP has earned its reputation as one of the leading e-sourcing solutions for sourcing transportation because of its flexible and robust bidding and advanced bid analysis and optimization capabilities that enable companies to meet the complex challenges of transportation procurement. For more than a decade, CombineNet ASAP has been used by some of the world's most innovative shippers and 3PLs to source transportation across all modes.

CombineNet's advanced sourcing technologies include [Expressive Bidding](#), [Expressive Feedback](#), and [Optimized Scenario Analysis](#), which help transportation sourcing teams implement the best practices outlined above. Some examples of these best practices in action include:

AGGREGATING TRANSPORTATION SPENDS:

SABMiller's European ground transportation network includes approximately 2,500 inbound and outbound lanes, delivering materials and finished product between suppliers, breweries, warehouses and customer locations. Before the company's adoption of CombineNet ASAP, the sourcing of carriers to service these lanes was done regionally, typically by country, resulting in an inefficient process of conducting multiple annual sourcing events and a less competitive environment for carriers.

SABMiller turned to CombineNet ASAP to centralize their transportation procurement operations and conduct a single, Europe-wide sourcing event that aggregated all of its ground transportation spend. With the added competitiveness and efficiency of a single event, SABMiller was able to achieve 8% savings while retaining 80% of its incumbent carriers.

[Read the full case study >>](#)

BALANCING RATES WITH SERVICE-LEVELS AND NON-PRICE FACTORS:

The procurement team at CEVA Logistics has in recent years observed that difficult economic conditions and increasing complexity in the supply chain were driving requirements for more innovative sourcing solutions – with many demands for change coming directly from its customers who relied on CEVA for procurement of transportation services. Traditional strategic sourcing models were too inflexible and limiting.

CEVA turned to CombineNet ASAP to enable them to employ more flexibility and detail in online sourcing events, both in terms of increasing the number of bid variables that could be collected from bidders as well as improving the ability for users to run robust sourcing scenarios and compare award options. CEVA also desired an advanced sourcing approach that would allow suppliers to suggest or propose alternatives to CEVA's standard specifications contained in the online RFPs, and allow their buyers to be able to analyze "soft factors" such as safety, quality, environmental concerns and overall supplier stability. Using CombineNet ASAP on a ground transportation sourcing event enabled them to achieve the right balance of cost and service levels across more than 1,300 lanes, with savings of 5%.

[Read the full case study >>](#)

SECURING CAPACITY TO REDUCE RISK:

European retailer Primark wasn't content with just a tool for capturing ocean transportation bids. It needed a reliable way to commit weekly business to select carriers, taking advantage of their available capacity to ensure that additional capacity would be available during the peak holiday shopping season.

Primark used CombineNet ASAP to improve global transportation procurement using Expressive Bidding with capacity commitments and optimized scenario analysis to ensure that the carriers they selected had the peak and non-peak capacity required to support Primark's supply chain.

[Read the full case study >>](#)

EVALUATING THE IMPACT OF MODE SHIFTING:

AstraZeneca ships its pharmaceutical products globally by a combination of air and ocean freight. To improve supply chain operations and reduce costs, AstraZeneca has undertaken a multi-year strategy to transition more product from air freight to ocean carriage. The AstraZeneca supply chain team had been successful in the past at transferring some of its air freight transportation to ocean freight, but had yet to undertake a large scale transformation because of the large amount of data collection and analysis required to fully understand the impact.

The company turned to CombineNet ASAP to support their sourcing strategy, modeling the impact of shifting some of their shipments from air freight to ocean carriage. They ultimately found a solution that shifted 10% of their air freight to ocean carriage immediately, with another 10% earmarked for mode shifting in the following year. In the process, they also generated more than 12% in cost savings while significantly reducing the sourcing cycle.

[Read the full case study >>](#)

IMPROVING PRODUCTIVITY AND RESULTS:

At Bayer AG, the procurement team in the Bayer Materials Sciences group was utilizing spreadsheets to make buying decisions on transportation services. Realizing that using spreadsheets to make bid determinations was not the most efficient use of time, Bayer sought a sourcing solution vendor who could help optimize its bidding process and outcomes.

Using CombineNet ASAP has helped Bayer procure at a higher level, increasing flexibility with the amount and type of requirements they can collect and analyze while reducing their procurement cycle time by 20%.

[Read the full case study >>](#)

SUMMARY

Transportation teams struggling to support their sourcing strategies using general-purpose e-sourcing technologies or TMS solutions benefit from the robust and flexible bid collection and industry-leading analysis capabilities of CombineNet ASAP, including:

- Greater savings and supply chain efficiencies uncovered through spend aggregation and Expressive Bids that reflect carriers' best proposals to meet your transportation needs.
- Productivity gains and more time for strategic transportation management thanks to product-enabled efficiencies in managing larger events, and using a single platform for all transportation modes.
- Stronger supply chains and reduced risk by engaging carriers in an e-sourcing process that strengthens relationships and evaluates their total value to the business.

CombineNet ASAP is used to source more than \$10 Billion annually across all modes of transportation. Learn more about how CombineNet ASAP can help your organization achieve transportation sourcing excellence:

- **Visit** <http://www.combinenet.com/solutions/transportation-sourcing.php>
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