

AgileElite Enables Transportation Spend Management

Executive Summary

Transportation costs are rising.

Runaway fuel prices, inflation, and inventory carrying costs contributed to logistics costs rising 7% in 2007 to \$1.4 trillion, or 10.1% of GDP. Analysts expect these trends to continue over the next few years. Executives must implement cost reduction strategies now to offset profit erosion.

Businesses lack transportation cost controls.

In 2007, although transportation accounted for an average of 62% of logistics expenditures and over 6% of GDP, most businesses have not implemented controls to effectively manage spending. As a result, transportation bills are bloated by as much as 20% due to poor decision support, lack of cost accountability, and inability to manage carrier performance.

Disparate systems fragment processes, obscure visibility.

The proliferation of disparate IT systems and carrier-provided technology over the years has automated specific business functions, but has left managers with a fragmented view of transportation costs and processes. Many carriers offer free shipping management systems, but without coherent visibility of transportation information across all modes, businesses are unable to implement spending controls necessary to fully realize savings.

AgileElite enables transportation spend management.

AgileElite is a suite of Enterprise Shipping Management solutions, designed to provide businesses with visibility and control over all transportation processes, from purchase to payment. Available via on-premise or on-demand deployments, AgileElite helps businesses manage transportation spend, reduce regulatory compliance risks, and streamline shipment processes.

Transportation Costs Are Rising

Supply chain efficiency gains have greatly reduced logistics cost over the past 15 years. Although the actual cost of US logistics more than doubled from \$581b in 1989 to \$1,387b in 2007, logistics costs have dropped as a percentage of GDP, falling from 14.5% in 1982 to 10.1% in 2007. Today, businesses are spending less on logistics as a percentage of overall revenue. However, signs are emerging that point to a reversal of that trend.

In 2007, logistics cost rose 7% over 2006 and continued upward into 2008. In their 19th Annual State of Logistics report (2008), the Council of Supply Chain Management Professionals identified cost pressures within each of the major areas of logistics spend:

Transportation now accounts for 62% of all logistics costs, up from 56% in 1989. In 2007, transportation costs rose 6% over the previous year. Key factors influenced transportation costs in 2007:

US Logistics Costs - 2007

	\$ Billions	
Transportation		
- Intercity trucking	\$ 455	
- Local trucking	216	
- Railroads	58	
- Air	41	
- Water	38	
- Forwarders	30	
- Pipeline	10	
- Shipper costs	8	
	856	(62%)
Carrying Costs	487	(35%)
Administration & Other	54	(3%)
Total	\$1,387	(100%)

CSCMP 19th Annual State of Logistics Report

Rising fuel prices – Global oil demand and record breaking fuel prices drove transportation costs to record highs. This trend is expected to continue through 2008 as carriers pass increased fuel costs through to businesses.

Excess Capacity – An economic slowdown contributed to excess carrier capacity. Higher fuel costs and increased competition for freight drove hundreds of truckers out of business. It's a shipper's market, but costs still increased.

Inflation – In addition to fuel, healthcare insurance and inflation contributed to higher carrier costs in 2007. "Today, it can cost more than \$1,300 to fuel a tractor trailer. Rising fuel costs have the potential to increase the cost of everything transported by truck, including food, retail, and manufactured goods", says Bill Graves, CEO of American Truckers Association.

Inventory carrying costs - With the economy slumping, inventory levels have increased. Carrying costs, which had been dropping as a percentage of total logistics expenditure from 39% in 1989 to 35% in 2007, jumped 9% in 2007 compared to 2006. The cost of warehousing rose 9.9% in 2007. Trends suggest further carrying cost increases as inventory levels swell. As a result, businesses may seek to move goods, rather than tie up capital in inventory. This will impact transportation budgets as a percentage of logistics costs.

Container costs - Global trade is driving the cost of ocean containers higher. "With capacity at a premium due to more demand for exports, containers are in short supply in the nation's interior", says Rosalyn Wilson, author of the Council of Supply Chain Management Professionals' (CSCMP) 19th Annual State of Logistics Report.

Businesses Lack Effective Transportation Cost Controls

With transportation spending at record levels, one might expect executives to pay more attention to implementing transportation cost saving measures, but too often transportation is considered just a cost of doing business.

“Many companies do not have a clear and accurate understanding of their transportation costs.”

Adrian Gonzalez, ARC Advisory Group

The reality is that most companies lack the internal controls necessary to effectively manage transportation spend. As volatility in fuel prices and carrier rate increases threaten to erode profits, the need to control transportation costs is more apparent than ever. Transportation is now a board level concern.

Insufficient decision support

Many businesses work hard to negotiate advantageous carrier contracts, but then fail to implement processes to manage cost effective execution against those contracts. With carriers offering an increasingly complex array of delivery options, employees within purchasing, order entry, fulfillment, and the front office often lack the expertise and decision support necessary to select the most intelligent carrier service.

Instead, employees are given a “blank check” to procure carrier services on the basis of carrier branding and guesswork, without any form of validation or control. Thousands of airbills sit in desk drawers throughout companies, like purchase orders without any form of authorization or financial oversight. As a result, businesses regularly pay for services they don’t need and fail to use services that could save money. Areas of waste include:

“Most organizations can save 33% or more by comparing rates and services from multiple carriers.”

Mark Taylor, author, industry expert

Overuse of premium express services: Some employees would be surprised to find that you don’t necessarily need to specify next day delivery services to get shipments to a destination the next day. Industry experts estimate that 59% of all overnight items are not opened the same day they arrive. Less expensive modes, including ground, can meet the same delivery requirements. The cost difference between a next-day, early a.m. service compared to a 3 p.m. service can be as much as 40%. But there are no controls in place to enforce more cost-effective decisions at point of purchase.

Putting all their eggs in one basket: “58% of high-volume shippers have multi-carrier shipping systems while the majority of smaller shippers utilize carrier-supplied shipping systems” (The 9th Annual *PARCEL* Best Practices Survey) According to shipping expert Mark Taylor, “No single carrier will be the best carrier for all of your needs.” Savvy shippers compare rates, service levels, and transit times amongst multiple carriers and modes. Today, regional carriers and the US Post Office can offer significant savings based on specific package characteristics or service needs.

Accessorial charges and penalties: Increasingly, carriers are levying a wide variety of accessorial fees and surcharges for incorrect addresses, residential or extended deliveries, dimensional weight charges, and other unanticipated costs which now accounts for 20% of carrier invoices, according to Morgan Stanley’s report on the parcel shipping industry (*PARCEL* 2008). These

charges could be sharply reduced, or at least anticipated and passed on to customers, by applying simple business rules at points of service selection and shipment processing. Instead, hard-fought negotiated discounts are “nicked and dimed” away by unexpected carrier fees.

Failure to manage inbound transportation: Many businesses pay higher rates (plus handling fees) for inbound shipments than outbound shipments. Shippers could leverage the volume discounts they have negotiated by requiring suppliers to use their own carrier collect account for inbound shipments. But purchasing lacks access to carrier pricing alternatives and consignee billing options when specifying carriers.

Failure to consolidate shipments: It is more expensive to ship multiple packages individually than to consolidate as a single LTL shipment. Many shippers overpay because they lack the ability to recognize consolidation opportunities.

Inability to leverage contract incentives: Many businesses negotiate attractive discounts that are tied to volumes and incentive tiers, but they have no process for monitoring and managing contract compliance. As a result, shippers fail to make service selections which would otherwise trigger higher discounts, and once they have achieved a volume tier they fail to look for other lower priced service alternatives.

High insurance premiums: Carrier insurance premiums are often double what private insurance companies would offer for the same shipment. Yet most companies do not take advantage of alternative insurance coverage for their shipments.

Lack of accountability

Without effective financial controls at key execution points, it is difficult for management to capture shipping transactions and ensure cost accountability. Lack of financial visibility leads to more waste.

Unauthorized Use: “Rogue” use of carrier accounts can result in unanticipated cost overruns. Unchecked use of airbills, carrier systems and web sites exposes businesses to risks such as fraud, theft of corporate assets, and disclosure of confidential information. Simple desktop controls can validate and authorize usage, and ensure compliance with corporate routing policies by recording actual vs. recommended carrier service selections.

“Transportation costs are often bundled together with other costs and reported at the aggregate level, thus preventing companies from allocating transportation to specific products, customers, and business units”.

Adrian Gonzalez, Director, ARC Advisory Group

Failure to accurately allocate costs: Shipment processing systems and accounting methods across multiple facilities, lines of business and geographies are often fragmented and uncoordinated. Valuable information is locked up within information silos and paper files. With no controls in place, finance is unable to accurately allocate costs. Product managers are unable to determine the total cost of producing, selling, and transporting products to consumers.

Inability to reconcile carrier invoices: Failure to capture and consolidate all shipping activity within a centralized database makes it difficult to reconcile

carrier invoices. Accounts payable often lacks the expertise and data to identify invoice errors, discount mistakes, duplicate charges, unpaid insurance claims, incorrect weights and account charge backs, and other billing inaccuracies. If they do find errors, they lack the means to implement controls to remediate the problems that are causing errors in the first place.

Expected vs. actual invoice cost discrepancies - Independent auditors can help reconcile carrier invoices. Parcel auditors estimate carrier invoice error rates average 3% of shipping costs. Freight auditors estimate freight invoice errors often exceed 8% or more. But even if auditors correct carrier invoice errors, the difference between the corrected carrier invoice and what the shipper expected to pay can be significant due to surcharges and accessorial fees.

Inability to recover unexpected costs:

Without the visibility to compare expected shipping charges (which are charged back to the customer at time of shipment confirmation) against actual carrier invoice charges, unrecovered costs further erode profits. Proper controls at point of execution and accurate cost calculations which take into account accessorial fees, including dynamic fuel surcharges, can make subsequent cost recovery requirements unnecessary.

Inefficient proof of delivery processes: Finance department personnel struggle with matching orders, shipments, items, and delivery confirmation information. Better visibility into delivery processes expedites A/R and reduces invoice disputes.

Inability to improve negotiating position: Without a unified and comprehensive view of transportation activity throughout the enterprise, transportation managers lose the opportunity to analyze volumes, forecast costs, measure performance, and improve their overall rate negotiating position. Information is power. Better information creates the basis for win-win contracts.

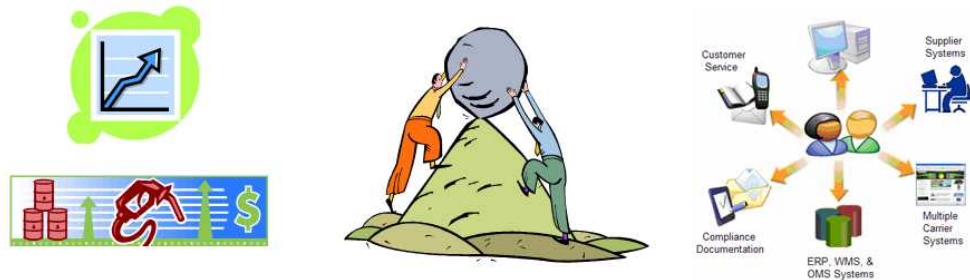
Disparate systems fragment processes, obscure visibility.

Over the last decade, businesses have invested heavily in a wide array of systems to automate internal processes. Departmental solutions, desktop applications, and new technology such as the Internet, email, and wireless communication have transformed and accelerated the pace of business.

But the rapid buildup of technology has come at a price. "Islands of automation" have left enterprise work flows fragmented, obscuring management views and undermining organizational cohesiveness. Employees lack the decision support they need to consistently comply with corporate policies. IDC estimates that information workers spend 35% of their time looking for the 80% of enterprise information that is essential for performing their key job functions.

Data and process fragmentation has created critical issues in three key areas:

Rising Transport Costs Eroding Profits	Inability to Manage Compliance Risks	Fragmented Processes Undermine Productivity
<ul style="list-style-type: none"> • Accessorial charges • Fuel surcharges • Cost accountability issues • Carrier bill reconciliation • Lack of decision support 	<ul style="list-style-type: none"> • Sarbanes Oxley requirements • Import/export regulations • Vendor fulfillment rules • Industry regulations • Lack of visibility and control 	<ul style="list-style-type: none"> • Disparate information silos • Redundant data entry • Errors, inconsistency • “Alt-Tab” integration • Inefficiency



Lack of integration increases transportation costs

The Council of Supply Chain Management Professionals (CSCMP) defines logistics as an “integration function”, coordinating all enterprise activities, including marketing, sales, manufacturing, finance and IT. Lack of accurate and timely information among shipper-carrier-customer interactions has been an impediment to progress and causes the kinds of wasteful transportation spending described above.

Lack of shipping controls creates regulatory compliance risks

Compliance is the 800 pound gorilla that sits in every boardroom. As a result of recent corporate financial scandals and breakdowns, regulators are stepping up enforcement pressures, holding executives personally accountable for exercising “reasonable care” and demonstrating “evidence of control” over business processes that impact compliance mandates.

Without consistent, auditable controls at point of shipping, business expose themselves to regulatory compliance risks, including import/export, hazardous material, and Sarbanes Oxley mandates.

Lack of integration undermines corporate performance

The need for supply chain visibility and control is obvious. Adrian Gonzalez, Director of ARC's Logistics Executive Council observes that “transportation is really the glue that holds the supply chain together”. Businesses need the ability to quickly harness and weave information from disparate enterprise systems, logistics service portals and trading partners into seamless, role-specific processes.

AgileElite is a Web Services integration platform than enables businesses to achieve a single view of shipping across their enterprise.

AgileElite enables transportation spend management

AgileElite is a suite of Enterprise Shipping Solutions, which can be deployed on premise or used in a hosted, on demand environment. AgileElite integrates with disparate IT systems and provide businesses with the visibility and control they need to manage transportation spend.



AgileElite controls transportation processes from purchase to payment

AgileElite provides a single, shared platform that is designed to control access to multi-carrier routing, rating, shipping, tracking and invoice reconciliation. Accessed across the corporate network or Internet through a standard browser, AgileElite leverages Web Services to deliver transportation information for authorized users anywhere in the supply chain.

AgileElite's suite of application includes:

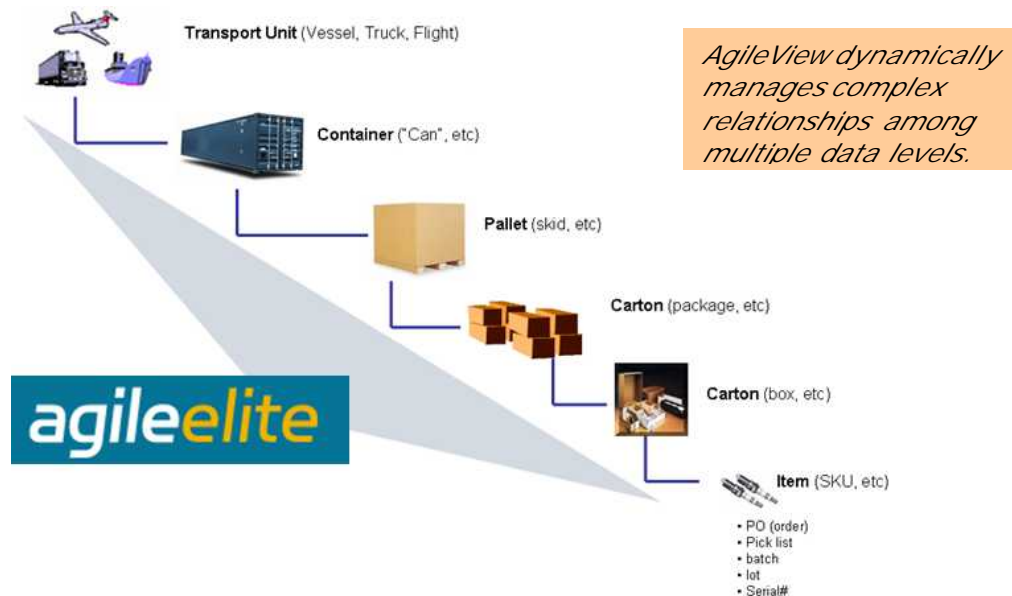
AgileShip. The heart of AgileElite is AgileShip, a multi-carrier shipping solution designed to automate weighing, rating, labeling, manifesting, and bill of lading processes in production environments. AgileShip is certified to connect with parcel and freight carriers, applying business rules to validate addresses, residential status, dimensions, fuel surcharges, and other conditions to reduce unexpected accessorial fees. Details for shipping transactions for multiple facilities are all stored in a single database.

AgileOffice. A companion application to AgileShip, AgileOffice provides employees in offices, home offices, and other remote locations with a simple, convenient solution for automating parcel and mail processing. AgileOffice takes the guesswork out of carrier selection and accurately validates user authorization, address book entries, carrier service, and cost center accounting.

AgileExport: Integrated with order management systems, AgileExport and AgileHazardmat enable shippers to comply with regulatory requirements. These solutions validate product classifications, packaging rules, electronic filing, and documentation requirements. Complying with customer, corporate, and regulatory compliance requirements is not an extra step. AgileExport reduces delays in customs, risk of penalties, and the costs associated with returns.

AgileRoute: Improvements in spend management controls can be codified within AgileRoute's powerful routing engine which optimizes carrier service selections based on customer delivery requirements, ship-to location, product type, and other user-defined rules. AgileRoute displays options or automatically selects the best service. AgileRoute stores the preferred rate for later analysis and reporting. Other systems can use AgileElite's robust API to access routing, rating and shipping functions directly.

AgileView: With all shipping transactions captured and stored in a single database, AgileView provides visibility from an order down to line item detail. Real-time tracking status for shipments are presented in a single unified view.



AgileExchange: Once carrier invoices have been audited, AgileExchange provides a repository for retrieving importing disparate carrier invoice formats into a single database. AgileElite periodically checks AgileExchange for new invoice data and imports new entries, matches up original shipping transactions with corresponding carrier invoice transactions.

AgileManage: The spend management loop is closed when AgileManage compares the original shipping record created by AgileShip with the carrier invoice data collected by AgileExchange. AgileManage reports transactions where expected costs deviate from the actual carrier invoice costs, including address corrections, residential surcharges, oversized charges, duplicate charges, manifested but not shipped, unauthorized account usage, and other exceptions. These reports help managers identify opportunities for implementing further spend management controls.

Summary of AgileElite capabilities and benefits

AgileElite supply chain visibility and control solutions address critical issues with these important benefits:

Critical Issues	Reasons	AgileElite Solution
Rising Transportation Costs	<ul style="list-style-type: none"> • Lack of cost-effective decision support • Inability to eliminate accessorial charges • Poor transportation cost accountability 	<ul style="list-style-type: none"> • Automate multi-carrier route optimization • Accurate rate calculation and address verification • Improve enterprise cost visibility and control
Process Compliance Enforcement	<ul style="list-style-type: none"> • Complex compliance requirements • Lack of expertise and training • Inability to monitor/measure compliance 	<ul style="list-style-type: none"> • Embed rules into automated compliance processes • Adapt processes to simple, role-specific work flows • Consolidate compliance process reporting
Customer Service Optimization	<ul style="list-style-type: none"> • Inefficient order and shipment tracking • Lack proactive exception alerts • Excessive order fulfillment errors 	<ul style="list-style-type: none"> • Composite view of order, shipment, line item, PODs • Automate exception notifications, POD requests • Eliminate operator intervention, validate details
Inefficiency	<ul style="list-style-type: none"> • Redundant data entry and steps • Multiple application operations • Manual documentation 	<ul style="list-style-type: none"> • Streamline information silos into unified work flows • Share common view among stakeholders • Automate manual tasks, eliminate data entry
Rising inventory levels	<ul style="list-style-type: none"> • Poor visibility into stock on hand • Unnecessary replenishments • Inefficient returns dispositions 	<ul style="list-style-type: none"> • Capture order, shipment, carton, line-item detail • Enable supplier drop shipping, inbound visibility • Facilitate customer returns, dispositions
Reduce cost of ownership	<ul style="list-style-type: none"> • Inflexible legacy solutions resist change • Lack of control over solution configuration • High cost of customized solutions 	<ul style="list-style-type: none"> • Fast On Demand deployment, reduced time to benefit • “Drag and drop” tools for role-specific work flows • Leverage legacy investments, carrier technology

Conclusion

We are entering an era when businesses must reduce their transportation costs to stay competitive in global markets. This will require a more strategic approach to transportation spend management.

AgileElite solutions leverage the power of Web Services technology to reduce transportation costs, while optimizing efficiency, compliance, and customer service levels.

Contact

Agile-Network
Offices Nationwide
866-686-AGILE
Visit our website at:
www.agile-network.com