

## Why Investing in Transportation Spend Management Makes Sense in This Economy

By Adrian Gonzalez

### Keywords

Transportation Spend Management, Transportation Management System, TMS, Parcel Shipping, Breg, Agile Network, Oracle

### Summary

The current crisis gripping the world's financial markets, coupled with a global slowdown in economic growth, is forcing many companies to reassess their outlook and priorities for the coming year. When it comes to IT

When it comes to IT spending, companies can take one of two paths next year: freeze spending until the economy improves, or take the advice of Warren Buffet and "invest when others are fearful." Smart companies will take the latter approach, especially when it comes to investing in a Transportation Management System (TMS).

spending, companies can take one of two paths next year: freeze spending until the economy improves, or take the advice of Warren Buffet and "invest when others are fearful." Smart companies will take the latter approach, especially when it comes to investing in a Transportation Management System (TMS). During weak economic times, companies often look for ways to reduce costs. Transportation is a natural target because most C-level executives still view it as a "cost center" and a

"low-hanging-fruit" opportunity to improve the bottom line. As a result, many companies are implementing best practices and technologies to better manage and control their transportation spend.

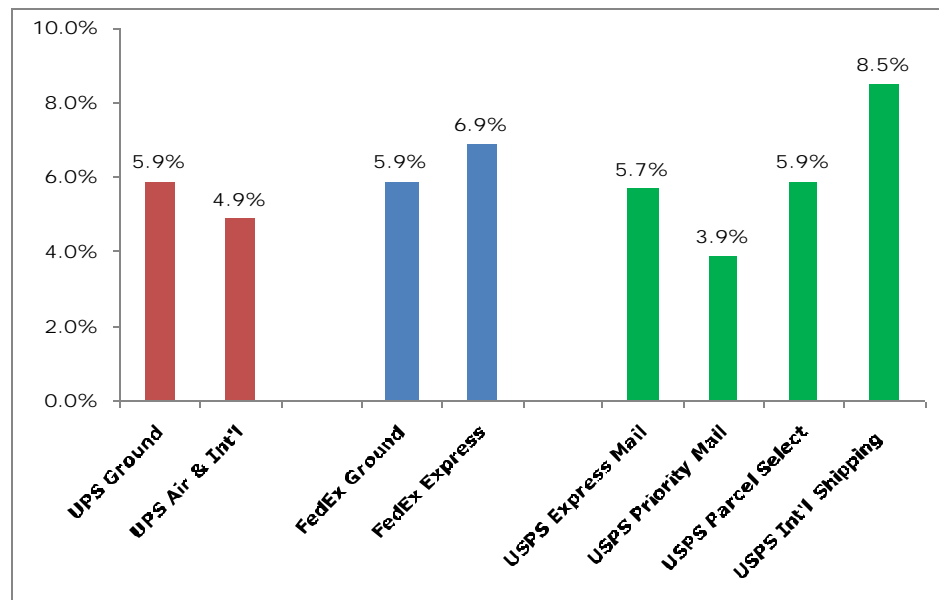
### Analysis

"Volatile" is the best adjective to describe today's economic environment. Oil was \$71 a barrel in July 2007. A year later it had risen to \$147, and today it's back down to \$50 a barrel. Similarly, the Dow Jones Industrial Average reached an all-time high of 14,164 in October 2007, only to drop more than 40 percent in recent weeks. Add to this the \$700 billion bailout of the financial industry, and the dire condition of the automotive industry, and it's easy to see why most companies are concerned about the near future.



Beyond these macro-level issues, transportation and logistics executives face other challenges next year. For example, DHL recently announced that it was exiting the US domestic express market on January 30. Many companies are now scrambling to transition their shipping spend from DHL to other carriers. This is not a trivial process, and if companies don't manage it effectively, their total shipping spend could increase next year and/or their service levels could decline.

In addition, FedEx, UPS, and USPS have all announced rate increases for 2009. UPS Ground rates, for example, will increase an average of 5.9 percent next year, and Air and International services will increase an average of 4.9 percent. If economists are concerned about deflation next year, it's certainly not evident in shipping market!



Average % Rate Increases Scheduled for January 2009

Simply put, in light of the overall economic challenges companies will face next year, logistics executives will experience even greater pressure to manage and control transportation costs. But how can they achieve this objective?

There are some fundamental best practices that companies can implement to manage and control their transportation spend, not only during financial crises, but on an ongoing basis. Simply stated, Transportation Spend Management is about answering the following questions, and implementing the

right processes and technologies to achieve ongoing operational and financial success in transportation management.

- Are we leveraging our total transportation spend when negotiating with carriers, or is our spend fragmented across departments, business units, or Logistics Service Providers?
- Are we engaged with the right set of carriers, or are there other carriers that can meet our service level expectations at a lower cost?
- Are we consistently using contracted carriers and paying contracted rates, or is there a lot of "maverick" spending taking place?
- Are we being invoiced correctly, or are we paying too much? What's the cost of our freight settlement process and can we streamline it?
- Are our transportation costs aligned with the rest of the market, or are we paying more or less than other companies?

Although these questions are easy to ask, they are not always easy to answer because many companies lack the necessary data, metrics, processes, and/or technology to analyze, manage, and control their transportation spend.

#### The Path to Managing and Controlling Transportation Spend

Companies cannot manage and control their transportation spend without having timely, accurate, and complete visibility to their shipping costs and activities. Unfortunately, achieving this level of visibility is difficult for many companies because:

- *Their shipping data often resides in multiple systems.* It is not uncommon, for example, for companies to use different Enterprise Resource Planning (ERP) systems and shipping systems across different business units or geographies. Aggregating shipping data from various sources and into a common format for analysis is not a trivial task. Doing this on a timely and recurring basis is even more challenging.
- *Their shipping data is not granular enough.* In some cases, companies bundle shipping costs with other items, or they're unable to allocate costs by item, order, customer, or department. Many companies also

fail to track accessorial fees, such as fuel surcharges and address correction fees, separately from total charges.

The net impact of these issues is that companies are unable to standardize and automate their shipping processes across the enterprise. This translates into increased labor costs for companies, as employees are forced to manually enter data and execute processes. Data entry errors cause companies to incur additional costs, such as address correction fees, residential delivery fees, and cancelled orders due to delayed shipments.

At the highest level, achieving compliance with Sarbanes-Oxley is dependent on having access to timely, accurate, and complete information, as well as establishing process controls—the same success factors required to better manage and control transportation spend.

Having standard and consistent processes across the enterprise is also important from a regulatory compliance standpoint. For example, linking operational metrics with financial metrics is an important goal for most companies, especially

those that must comply with the Sarbanes-Oxley Act (SOA). At the highest level, achieving compliance with SOA is dependent on having access to timely, accurate, and complete information, as well as establishing process controls—the same success factors required to better manage and control transportation spend.

Similarly, companies can no longer rely on manual processes to comply with customs regulations. Customs agencies around the world are modernizing their systems, requiring companies to file Shippers Export Declarations (SEDs) and other import/export information and documents electronically. In the United States, for example, the Trade Act of 2002 stipulated that, "*the Bureau of Customs and Border Protection (CBP) must receive, by way of a CBP-approved electronic data interchange system, information pertaining to cargo before the cargo is either brought into or sent from the United States by any mode of commercial transportation (sea, air, rail or truck).*"

In summary, the path towards better transportation spend management begins with improved visibility to shipping costs and activities, as the following case study of BREG illustrates.

#### Case Study: BREG

BREG, a leading provider of orthopedic, reconstructive and postoperative products, faced many of the challenges outlined earlier. The company was using multiple shipping systems, from carriers and third-party vendors,

and each system required a separate interface to BREG's Oracle E-Business Suite installation. This environment was not only challenging from an IT support and total cost of ownership (TCO) perspective, but also from a process execution standpoint.



### Company Profile

- ◆ BREG, Inc. is a leader in the premium orthopedic, reconstructive and postoperative products industry. The company is a subsidiary of Orthofix International, a publicly-traded orthopedic products company.
- ◆ BREG over \$500 million in revenues and its products are currently distributed through a worldwide network of more than 100 distributors in 36 countries.
- ◆ BREG executes about 1,000 shipments per day from distribution centers in California, Texas, and Italy (about 30 percent of shipments are international).
- ◆ BREG uses Oracle E-Business Suite (11.5.9) as its enterprise solution.

### Challenges Prior to Implementing AgileElite

- ◆ Inability to manage transportation costs and compliance risks
- ◆ Fragmented execution processes (manual, inefficient, error-prone)
- ◆ Support multiple shipping systems, including carrier and 3<sup>rd</sup> party solutions

### Benefits of Implementing AgileElite

- ◆ A single service-oriented architecture shipping platform across all locations
- ◆ A single connection to Oracle E-Business Suite
- ◆ Improved visibility and control of transportation costs
- ◆ Improved efficiency and accuracy of shipping process
- ◆ Eliminated delays at US Customs
- ◆ Improved customer service

### BREG attains greater visibility and control of shipping costs and activities

"Our transportation execution process was nebulous back then," says Steve Romeo, Chief Information Officer (CIO) at BREG. Each system recorded shipping information in different formats, and they lacked the necessary item-level details to automatically classify tariffs and generate export documentation. As a result, employees had to perform these tasks manually, and whenever data entry errors were made, shipments were delayed at U.S. Customs. Also, since many of BREG's shipping containers have large size-to-weight ratios, they are subject to dimensional rates. Shipping employees had to calculate these rates manually, multiplying the container's length, width, and height together and dividing by 194. Needless to say, these hand calculations were not always correct, resulting in unexpected fees and penalties.

With shipping data stored in various formats, across multiple systems, BREG did not have timely and accurate visibility to its transportation spend and activities. Therefore, it was difficult for the company to drive down

costs and improve process efficiencies. The lack of visibility also affected customer service. When customers called with questions about order status or delivery information, customer service agents couldn't provide quick answers because they had to verbally ask shipping employees or search multiple systems.

#### BREG's Key System Requirements

- Single interface to Oracle E-Business Suite
- Single enterprise-class shipping platform across all facilities
- Single centralized database to store all shipping cost and transaction data
- Nested visibility of costs and transactions down to item level
- Automated export compliance and dimensional rating processes

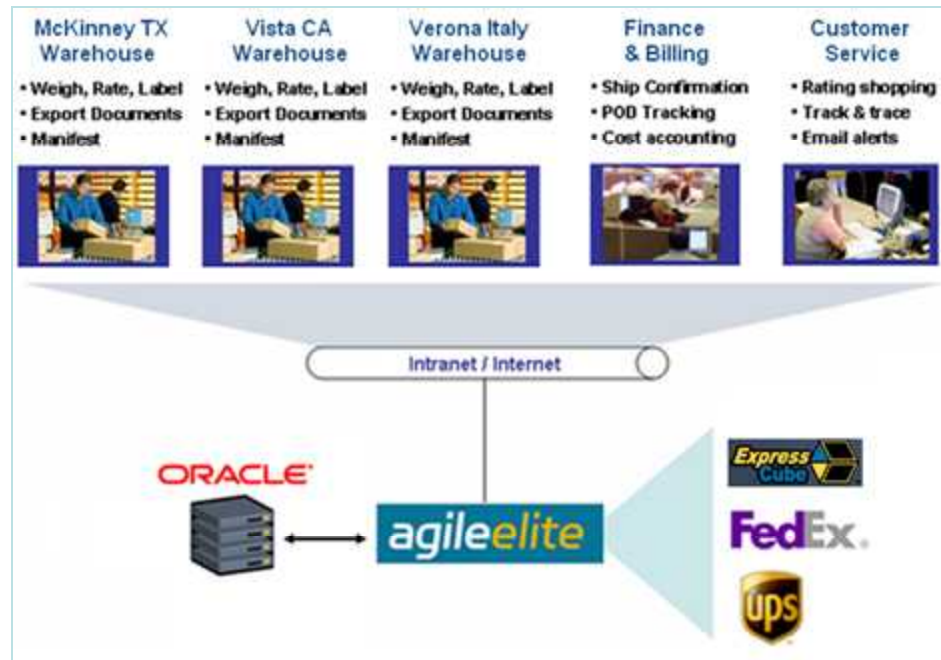
Simply stated, BREG recognized that its current shipping technology setup and processes were not scalable or sustainable. The company had to make some changes. According to Romeo, "*our first steps were to scope out our objectives and identify our success factors. We then determined our technology requirements to achieve these goals.*"

After evaluating several options, BREG selected AgileElite, a SOA-based solution from AgileNetwork ([www.agile-network.com](http://www.agile-network.com)), a knowledge network of logistics systems integrators who specialize in multi-carrier shipping and global trade solutions. As highlighted in a previous ARC Brief ("An SOA Approach to Parcel Shipping"), the next wave of innovation in multi-carrier shipping solutions is the use of Web services and composite applications. This was one of the key features that led BREG to select AgileElite, along with the solution's ability to integrate easily with Oracle's XML Gateway. "*The solution's service-oriented architecture gives us great portability and configurability,*" explains Romeo. For example, Agile created role-specific user interfaces for BREG's employees in shipping, customer service, and accounting. "*We have improved our ability to provide all stakeholders in the enterprise with visibility to logistics information,*" says Romeo. "*Customer service gets detailed, up-to-date order and delivery status; accounting has quick access to Proofs of Delivery; and finance can reconcile carrier bills and control transportation costs.*"

Reducing address correction fees, residential delivery fees, and other surcharges was another key objective for BREG, and the process controls inherent in AgileElite have enabled the company to realize cost reduction benefits.

As the chart below shows, AgileElite is installed at BREG's corporate data center and it's integrated with Oracle E-Business Suite via a real-time XML Gateway connector. Authorized employees from the various BREG facili-

ties access the solution using a Web browser. AgileShip, the multi-carrier shipping module of AgileElite, is also interfaced with an ExpressCube scale that automatically weighs and dimensions the cartons. BREG has achieved additional cost savings by replacing a manual dimensional rating process with a streamlined and automated one.



Overview of BREG's AgileElite Implementation

For international shipments, AgileExport (another AgileElite module) verifies tariff codes and prints the necessary forms, such as Commercial Invoices and Certificates of Origin, while transmitting Shipper's Export Documents (SEDs) to AES Direct to facilitate U.S. Customs clearance.

The initial roll-out at the Vista, California warehouse is almost complete. BREG expects all of its facilities to be on the platform by the end of 2009, and to reduce its transportation spend by approximately 3-4 percent. Romeo is pleased with the results to date. *"AgileElite has empowered BREG management with the speed, stability, accuracy, and controls we need to manage enterprise logistics information processes. We've streamlined the shipping process, improved customer service, and reduced risks associated with Sarbanes Oxley and international trade compliance."*

The bottom line: the economic downturn is not slowing BREG down from investing in its future growth, and it shouldn't slow you down either.

## Conclusions

- During this economic downturn, companies should resist freezing all IT investment. Instead, they should take the advice of Warren Buffet and "invest when others are fearful" particularly in solutions that enable cost savings and productivity improvements.
- Companies cannot manage and control their transportation spend without having timely, accurate, and complete visibility to their shipping costs and activities. Unfortunately, achieving this level of visibility is difficult for many companies because (among other factors) their shipping data often resides in multiple systems and the data is not granular enough.
- SOA-based solutions make it easier for companies to have a more detailed and unified view of their shipping costs and activities by integrating information from various applications and data sources onto a single platform.

*This paper was written by ARC Advisory Group on behalf of Agile Network. The opinions and observations stated in the paper are ARC's. For further information or to provide feedback on this paper, please contact the author at [adriang@arcweb.com](mailto:adriang@arcweb.com).*