Reducing transport costs by managing inbound transport flows actively

Huge reductions in inbound transport costs can be achieved – yet unlocking this potential seems difficult. This is mainly due to the fact that inbound transport services are usually commissioned by the supplier but must be paid for by the customer. The party who receives the invoice has absolutely no control over the commissioned transport services and thus no opportunity to intervene in order to reduce costs. A large tier-1 automotive supplier was no longer willing to accept these circumstances and will use SupplyOn's Transport Management system in order to take advantage of the potential for savings in inbound transports.

Challenges

In the past, the tier-1 supplier's inbound transport services were commissioned exclusively by its sub-suppliers. On the basis of rules pertaining to transport weight, recipient's site and shipment urgency, the sub-suppliers select what they believe to be a suitable logistic service provider from a pool of carriers. However, the rules overlap at times. In many cases, the supplier is unable to determine the most reasonably priced provider for a specific shipment because not all information needed to make a decision is available.

A further challenge lies in making changes to the carrier pool, e.g. adding new service providers, breaking off existing business relationships or customizing a rule regarding the selection of carriers. The fact that all suppliers affected need to be informed means that any changes result in an extremely high administrative outlay. It is also difficult to ensure that the changes are actually made by all suppliers before the scheduled deadline.

In addition to selecting the most reasonably priced carrier for a specific shipment and adding suitable service providers to the carrier pool, there is another area where considerable cost reductions can be achieved – freight auditing. With the invoices used to bill transport services, it is very difficult to determine (and thus expensive to check) whether the transport has actually taken place and whether the items billed really are justified. Even random checks involve a disproportionately high administrative outlay. It is also impossible to allocate the costs internally in the correct manner and to assign them to the right cost center.

The SupplyOn solution

For SupplyOn, the transport management process begins with the customer's materials demand notification as an electronic message – and this is where the SupplyOn TM system differs fundamentally from other TM systems on the market. The materials demand notification forms the basis for a transport order because it already contains transport-relevant information, e.g. quantity (from which the transport weight can be determined), packaging regulations (and thus volume and loading meters) and deadline (and thus the urgency of a shipment).

This is where transparency regarding the actual transport services begins – and with it the opportunity to intervene in order to manage the processes and reduce costs. The supplier merely needs to enter the quantity to be transported into the system or to confirm the specified quantity from the order or the delivery instruction. However, the final order for transport is being placed automatically by the system – based on rates and rules – in the name of the company paying for the freight.

BENEFITS AT A GLANCE

- A reduction in freight costs thanks to the system-supported selection of the most reasonably priced logistic provider and the appropriate optimization of transport orders

- A better negotiating position when transport services are awarded thanks to greater transparency as regards the actual order volume

- Straightforward carrier switching because only a single field needs to be changed

- A reduction in the administrative outlay during audits because transport invoices can be clearly matched to the underlying order

- A reduction in the administrative outlay when booking invoices internally because a transport invoice can be clearly matched to the underlying demand

- Audit-compliant, comprehensible awarding of transport jobs

- Time savings and better results during tactical and strategic network planning thanks to correct, reliable data

The SupplyOn solution (continuation)

The system calculates the number of loading meters required for transport prior to commissioning and allows full cost transparency for the ordering party from the very beginning. Because it is the ordering party who knows all the framework conditions in detail, the ordering party can react and actually identify the most reasonably priced carrier in case of doubt.

Each transport order is documented in the TM system and can be clearly matched to the underlying order or demand notification. As a result, the correct internal allocation of transport costs is no longer a problem. In addition, all transport orders are documented in an audit-compliant manner.

If a company wants to replace a carrier, all that needs to be done in the system is to update a single field in the optimization rules. The high administrative outlay which in the past made it difficult to switch to a more reasonably priced provider is now completely eliminated.

In addition, the fact that the actual transport orders are seamlessly documented means that correct freight data are available. On the basis of these data, the transport network can be optimized and transport services put out to tender and negotiated more easily.

Project details

The first step involved selecting four European sites and 20 suppliers for a pilot project. The findings from the pilot connections were taken into account during the rollout which began in Europe and is now being extended gradually to the NAFTA and Asia regions.

SupplyOn's international presence with offices in the USA and China as well as user support in national languages is a key benefit during the rollout. The aim is to use these SupplyOn resources so that no more than five weeks pass between the first contact with a supplier and the new process going into productive use.

By the end of 2017, the international rollout should be largely complete and 1,000 suppliers will have been integrated into the new transport management process.

Correct and consistent master and packaging data are a key factor for a successful rollout. The supplier therefore decided to kill two birds with one stone during the project and to use it as an opportunity for company-wide consolidation of the IT landscape and the introduction of standardized master data.