

# Reducing Transportation Costs After Corporate Acquisitions

Tom Sanderson  
Eric Scholar

## Introduction

Firms undertake acquisition strategies for a number of reasons, but after the acquisition is done, there is always a drive to reduce costs. There are several methods that can be used to reduce costs, and several corporate functions from which savings can originate. The transportation function is one area where savings in the millions of dollars should be expected, yet these savings are rarely realized.

This paper identifies the simple steps needed to actually realize transportation-related savings after acquisitions are completed. It provides a case study involving USFilter, a highly acquisitive multi-billion dollar organization with more than \$100 million in annual freight expenditures.

## The Problem

Growth through acquisition often fails to lead to reduced transportation costs because acquisitions expand a company's distribution infrastructure instantly, without providing a practical means to coordinate transportation operations between pre- and post-acquisition locations. Further, research from IDC indicates that most companies have either no transportation management software, or use band-aid solutions in conjunction with their ERP systems.

In theory, an acquisition should enable the new company to reduce transportation rates through consolidated purchasing, and reduce supply chain operating costs through network optimization. However, inadequate or absent transportation management software prevents cost reduction in two ways: 1) lack of a centralized data warehouse makes it impossible to effectively consolidate data for use in carrier negotiations and supply chain analysis; 2) lack of a simple, efficient way to communicate leads to operational ineffectiveness and an increase in rogue transportation purchasing decisions.

### 1) Lack of a Centralized Data Warehouse

Following an acquisition, one of the most proven cost-savings opportunities is the consolidation of purchasing. In order to consolidate transportation spend, a company must first understand what it is buying, from whom it is buying, and how much it is spending.

In transportation, this information must come either from the company's transportation management system (if it has one), from its freight payment vendor, or by analyzing countless stacks of bills of lading mailed in from each of its docks.

Typically, this data is assembled manually, organized into an RFP, and issued to carriers in hopes of convincing them to reduce their rates in exchange for a larger share of the company's freight. The less accurate and/or complete the data, the higher the rates provided by the carriers. Once the RFP process is completed and the freight awarded, the best carriers/rates for all of the company's lanes are assembled into an operations manual or "routing guide".

Almost all manufacturing companies go through the RFP/routing guide process. However, the acquisitive company bears the additional burden of transportation operations that are inherently more complicated and dispersed, making data gathering difficult or impossible.

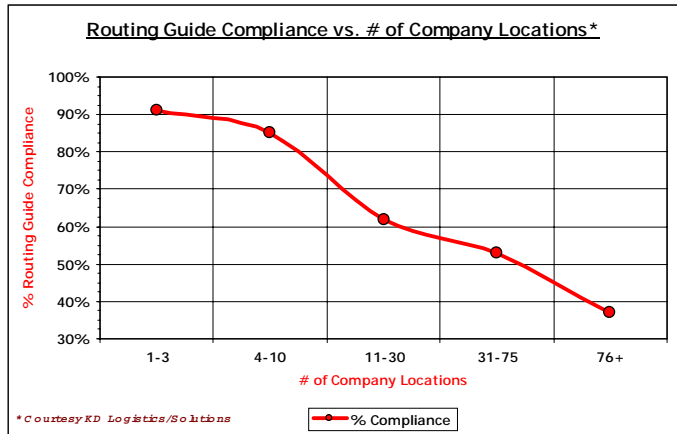
### 2) Lack of Effective Communications






Transportation pricing is complicated. Numerous modes, lanes, carriers, accessorial charges, and pricing methodologies make it difficult to compare and determine the least expensive or best carrier for any given shipment. A company with transportation operations managed centrally has the advantage of storing routing guide information centrally - often in the form of hundreds of pages of rates stored in three-ring binders. Traffic managers use these binders to look up the best rate/carrier for shipments. For acquisitive or decentralized firms, three-ring binders are an inadequate option - information changes too often for companies with tens or hundreds of remote locations to keep the binders up-to-date.

The decay in the reliability of the “three-ring-binder” method often leads field transportation professionals to abandon rates established at the corporate headquarters in favor of contracts negotiated and maintained locally (“rogue” spending). Rogue spending has the dual negative effect of 1) reducing the total volume that corporate-approved carriers move, and 2) creating higher transportation costs (since single/local operations can't get the same volume discounts as the larger corporate entity). It is not the case that local managers are looking to spend more money. To the contrary, they are typically highly focused on profit margins and cost levels. It is simply that the systems and processes that work for companies with stable infrastructures break down as a firm grows through acquisition.

KD Logistics/Solutions, a supply chain consulting firm, reports that the degree of compliance to a corporate routing guide decreases with the number of locations the company has (see graph). The compliance rate drops even further when the number of locations considered includes those established through acquisition.

Routing guide compliance % is defined as the percentage of shipments for which a manager assigns the best available carrier to a load.



|                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <b>Carrier 1: \$200</b><br> <b>Carrier 2: \$210</b><br><br><b>Potential Cost: 5%</b> |  <b>Carrier 1: \$300</b><br> <b>Carrier 2: \$330</b><br> <b>Carrier 3: \$375</b><br><br><b>Potential Cost: 10-25%</b> |
| $\frac{(\$210 - \$200)}{\$200} = 5\%$                                                                                                                                                                                                                       | $\frac{(\$375 - \$300)}{\$300} = 25\%$                                                                                                                                                                                                                                                                                                                                         |

How much does non-compliance cost? The answer depends on the modes a company uses, the number of carrier contracts, and the variation in the carrier rates. The table (left) shows two examples of the cost of non-compliance on a single shipment.

In the first example above, non-compliance costs the company 5% every time Carrier 2 receives a load instead of Carrier 1 (note: non-compliance does not include those times when Carrier 1 does not have capacity available). In the example on the right, the company will pay an extra 10-25% each time Carrier 1 is not selected.

Why would a reasonable manager choose Carrier 2 or Carrier 3 instead of Carrier 1?

- The manager may not be able to find Carrier 1's rates in the 3-ring binder.
- Carrier 1 may be part of a corporate contract unknown to the manager.
- The manager may not have time to fumble through the routing guide, and, when the dispatcher for Carrier 2 is on the phone asking for the freight, the manager will go ahead and tender the load to Carrier 2.
- Carrier 3 may be a local favorite, despite higher rates.

These types of scenarios play out every day at acquisitive companies across the country, and the costs of non-compliance quickly mount. A company spending \$25 million per year on transportation with a relatively high compliance rate of 80%, and a conservative cost of non-compliance of 5% will pay \$250,000 per year in non-compliance costs.

## A Case Study

USFilter, a Vivendi Water company, provides commercial, industrial, municipal and residential water and wastewater treatment systems, products and services throughout more than 100 countries. In the 90's, USFilter used an acquisition strategy to unite the top brands in the water industry, including Culligan, Arrowhead, Ionpure, Envirex, Wallace & Tiernan, Zimpro, IWT and Permutit. By 2000, USFilter had more than 200 shipping locations, 20,000 employees, and an annual freight spend of more than \$100 million.

Though USFilter maintains a corporate logistics staff at its Northbrook, IL headquarters, day-to-day transportation purchasing decisions are made at each of more than 200 sites. In an effort to leverage the transportation spend of these 200 locations, the corporate logistics staff negotiated a corporate LTL tariff, at a significant discount to the tariffs in use by the local facilities. The corporate tariff was projected to provide significant savings, and was made available nation-wide.

Despite the rollout, the company's LTL costs did not drop. Also, the amount of freight tendered to the corporate carrier did not increase. To the corporate logistics staff, choosing the corporate carrier seemed like an easy way to save money. What happened?

As a highly acquisitive company, USFilter lacked an effective tool for disseminating information. To be effective, USFilter required the following functionality:

1. A means to communicate constantly changing corporate rates to a decentralized infrastructure.
2. A means to provide all relevant information, such as carrier service times and a listing of alternatives, in conjunction with rates.
3. A system to handle the complexities of multi-modal routing.
4. Advanced functions beyond routing guide compliance, including bill of lading generation, order tender, order status, and more – in short, a tool that could be used to manage the entire transportation lifecycle.

In addition to the problem of communicating and enforcing compliance to the corporate routing guide, USFilter had a second major opportunity – the rates they had negotiated did not take into account all of the company's volume. This is a particularly insidious problem, since it is essentially invisible – headquarters staff were aware of the current negotiated rate, but were not aware of the potential best rate, because they lacked access to *all* of the company's shipping data. According to Dave Molnar, manager of logistics at USFilter, "Every entity was doing its own thing. There was no tie-in. We did not have any data to see what our needs were and where we were spending our freight dollars."

## The Solution


To resolve these challenges, USFilter realized they needed a transportation management system, or TMS. After an exhaustive search, USFilter turned to Clicklogistics Online, a complete, web-native TMS developed by Clicklogistics, Inc. Clicklogistics Online (CLO) includes a rating engine, a transaction management database, optimization modules, order status modules, and a data warehouse.

For USFilter (or any acquisitive firm), the rating engine and the data warehouse are the keys to unlocking savings after an acquisition. The rating engine provides an efficient means for disseminating information. The data warehouse gathers information for later use in carrier negotiations and supply chain analysis.

CLO is offered in a hosted (ASP) format – which means users access the system using only a web browser – there is no software to install or hardware to buy. The ASP format greatly simplifies implementation at a decentralized company, and provides an extremely effective means for communicating information to disparate locations.

To use CLO, USFilter first had to provide its corporate tariffs to implementation managers at Clicklogistics. Implementing CLO at 200 locations required corporate logistics managers to develop a timeline split into natural segments – company divisions were rolled out one at a time so success stories could be built and passed along to successive locations. CLO's ease of use allowed training to be conducted via "webinar" (a combination of conference call and presentation viewed over the Internet), taking just an hour of each field manager's time.

With the tariffs loaded into CLO, all of the company's field managers could quickly and easily view the company's best rates whenever they were ready to ship, simply by logging on. As shipments are entered into the system (through EDI, other electronic means, or manually), traffic managers can request rate quotes. The quotes come back instantly from the rating engine, and show all carriers (and their rates) who can meet the service requirements of the shipment (example below).

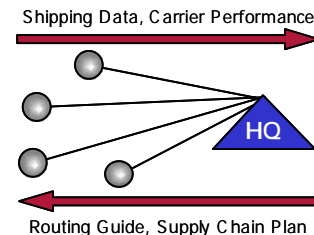
| Tariff Quote Results                                 |      |            |                          |                                                                                            |         |          |                   |        |  |
|------------------------------------------------------|------|------------|--------------------------|--------------------------------------------------------------------------------------------|---------|----------|-------------------|--------|--|
| Carrier                                              | Type | Line Haul  | Accessorials             | Total \$  | \$/Mile | \$/cwt   | Transit           | Eqpt   |  |
| <input type="checkbox"/> <a href="#">ABC Cartage</a> | LTL  | \$638.96   | <a href="#">\$150.00</a> | <b>\$788.96</b>                                                                            | \$0.48  | \$63.90  | 0 Days,<br>20 Hrs | 48 Van |  |
| <input type="checkbox"/> <a href="#">NE Freight</a>  | LTL  | \$681.25   | <a href="#">\$200.00</a> | <b>\$881.25</b>                                                                            | \$0.64  | \$85.80  | 1 Day,<br>0 Hrs   | 48 Van |  |
| <input type="checkbox"/> <a href="#">Smith Bros.</a> | TL   | \$1,882.99 | <a href="#">\$140.00</a> | <b>\$2,022.99</b>                                                                          | \$1.45  | \$195.30 | 1 Day,<br>12 Hrs  | 48 Van |  |

Tender Checked
Return to Shipment View
Assign Carrier

The CLO rating engine serves as an electronic routing guide. The corporate logistics manager controls its content, and tariff updates are visible to field personnel immediately after being loaded into the system. Data for every shipment is stored in the data warehouse, where it can be stored or downloaded for use in carrier negotiations or supply chain network analysis.

With the system in place at USFilter, Dave Molnar says, "Once the system has the shipping information, employees can use it to locate the best carrier, based on service requirements and cost. The process takes seconds, compared to the time spent on a phone getting quotes from three or four carriers, or compared to trying to find them in a paper-based routing guide. The system makes sure the company always gets a good deal."

With CLO, a 2-way communication path is set up between field locations and corporate, using the Internet as the communication medium. The company's best rates and carriers are communicated instantly to the field, and transportation spend and usage information are transmitted with each shipment back to corporate (where it can be used to consolidate purchasing and improve the company's supply chain).



### Clicklogistics Online

Clicklogistics Online requires neither upfront license fees nor long-term contracts, giving customers a rapid payback and providing a low-risk solution. Pricing is offered either on a transactional or subscription basis. The system is extremely easy to use - training can be accomplished in less than a day.

If you work at a company who has recently gone through one or more acquisitions, Clicklogistics Online could be the key to realizing post-merger savings. To find out more, visit the company's web site at [www.clicklogistics.com](http://www.clicklogistics.com), or call toll-free, 866-254-2556.