

Case Study

MANAGED TRANSPORTATION

Managed Transportation Solution Adds Control, Improves Visibility and Removes Costs from Inbound Freight Program

Managed Transportation

Challenge

- Cut inventory levels 20%
- Achieve 15% freight savings
- Reduce arriving trucks by 20%

Solution

Comprehensive managed transportation solution that includes order management, shipment creation and execution, and freight audit and payment

Results

-  Program has paid for itself
-  Consolidation rates
-  Visibility
-  Freight program costs
-  Inventory levels



Remaining profitable in competitive markets depends upon maintaining lean and efficient operations. However, achieving distribution efficiency can be challenging, particularly when working with a large number of vendors. To provide its customers with the wide range of equipment and services needed for drilling and extraction, a leading global oilfield services company works with hundreds of vendors. The diverse vendor base created ongoing inefficiencies in its inbound shipping process, continually inflating inventory and transportation costs. So the company turned to Exel for a managed transportation solution.

→ The Challenge

This customer supplies a wide range of oil and gas exploration, drilling and extraction equipment to hundreds of field operations across the United States. In some cases, shipments are sent directly from the vendor to the field and in others they are routed through one of nine consolidation/assembly facilities. The aggregate volume of inbound shipments is in excess of 10,000 deliveries a year.

Historically, the customer's policy was to send purchase orders directly to its vendors, and pay them once an order was received at the requested destination. Consequently, vendors were motivated to ship products as soon as possible, so there was very limited order consolidation, either within an individual vendor or across the broader vendor base. As a result, multiple parcel shipments of low weight were created by individual vendors each day. This inefficiency was also replicated with multiple less-than-truckload (LTL) shipments that could have been consolidated into higher weight LTLs.

With control in the hands of the vendors and no transportation management system in place, the customer also lacked visibility to its inbound shipments and had no way of reliably measuring and tracking when an order would arrive and by what mode. For example, a product might arrive one month before it was required or on the very day it was needed. There was no way of knowing until it was actually on the dock, at which point the shipment was accepted and put into inventory. This was standard procedure for many years and created a number of costly problems, including:

- Inefficient inbound modes – Once an order was ready, the vendor shipped to the required destination. Several separate parcel shipments might arrive at the assembly site from the same vendor each day, thereby inflating transportation costs.
- No accountability for partially shipped orders – Suppliers were being paid for items that had not been shipped.
- Inability to manage costs – There was no way to audit freight costs because they were combined as a single line item on invoices.
- Shipments arriving too early – Materials were kept in inventory far longer than business needs required, thereby inflating inventory levels and carrying costs.
- Paying suppliers too early – Vendors were routinely getting paid several weeks in advance of the required delivery date.



Improving Facility Efficiency

“Our managed transportation solution helped our customer achieve visibility, bring order to the distribution network and reduce overall costs.”

- David Crowley,
director of Exel's
Transportation
Management
Center in Houston

→ The Solution

The customer's objectives in addressing these problems were:

- Cut inventory levels by 20 percent
- Achieve a 15 percent reduction in freight costs
- Reduce arriving trucks by 20 percent

Working closely with the customer, Exel developed and implemented a ready-to-ship managed transportation solution that includes order management, shipment creation and execution, and freight bill audit and payment.

The first step in implementing this solution was to integrate the order management and transportation functions so that orders could be planned into shipments by a central team and delivered to the required date, as opposed to being shipped when ready. This was achieved by integrating Exel's transportation management system (TMS) with the customer's procurement system and feeding a master purchase order (PO) file into the TMS daily. Each PO feed updates the previous one, so that any changes to order quantities, requested items or required delivery dates are captured in the TMS. Vendors are able to access their orders through the TMS and use a customized ready-to-ship screen to release single or multiple purchase orders, noting partial or full quantities, and specifying the date they will be ready to ship.

Once orders have been marked as ready-to-ship, Exel plans these orders into shipments based upon the origin, destination and required delivery date. Carriers are automatically selected from a customer-approved route guide, thereby ensuring competitive rates and a more transparent and efficient freight bill audit and payment process. Exel is currently consolidating hundreds of orders a month at a high frequency into daily LTL or truckload shipments, and the customer knows exactly what products it is going to receive and when.

→ The Results

The program is meeting all expectations. "The team now has visibility to all purchase orders from all vendors, avoiding early deliveries and unfilled orders, and is able to better consolidate shipments from individual vendors," said David Crowley, director of Exel's Transportation Management Center in Houston. "Everything is operating much more efficiently, and the customer's overall freight program costs have dropped as a result."

- 18 months into the program, consolidation rates rose to greater than 65 percent on a consistent basis.
- 20,082 orders were consolidated into 7,974 shipments, saving approximately 15-18 percent in costs.
- Inventory levels have decreased, and the customer's buyers have noted increased compliance with customer-requested due dates for the vendors that have migrated to the program.
- Payment of freight invoices has improved due to the authorized bills of lading being issued through the TMS; the bills of lading drive the freight audit process and speed the match of carrier invoices to valid shipments.



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Raising expectations.

If your inbound transportation process is unwieldy, inefficient and costly, call Exel today. Our managed transportation solution can help reduce complexity and banish inefficiencies that cut into your margins.