Leading Freight Transportation Company saves $1.4 million

INDUSTRY : Transportation and Logistics

Background

A leading freight transportation company with a railway network of 32,000 route miles spread over 28 states in North America is committed to service and growth. The client, one of the world's top transporters of intermodal traffic whose railway lines serve more grain-producing regions than any other railroad, has more than 45,000 employees. Among its core values is the drive to continuously improve by doing the right thing safely and efficiently.

Challenge

Despite having an in-house procurement department and a large team handling various requirements on a day-to-day basis, the client lacked sufficient insight into its business spend and the ability to generate meaningful information on a variety of important metrics, including suppliers by spend, regional spend distribution, volume-based top suppliers or suppliers by order. There is a significant opportunity across industries for organizations to get a better handle on visibility into their overall spending behavior and to realize significant savings as a result. A 2014 study found that inefficient procurement tools are costing businesses in the United States and Canada more than $1.5 billion per year and wasting more than 32 million man hours.[1] Another study found that spend management initiatives helped global corporations increase their contract compliance by 30.6 percent, yield savings of 92 percent from improved sourcing activities and boost their return on investment by some 40 percent.[2]

Because the transportation company realized spend analysis is widely recognized as a fundamental enabler of business strategy and sustainable cost savings and because it had hundreds of thousands of items on purchase orders that needed to be cleansed, categorized, itemized and rationalized, it turned to PK for help.

Solution

To address the problem, the client asked PK to provide recommendations to find sourcing opportunities and reduce unaccounted spending. The PK team began with an analysis of a year's worth of purchase orders for eight material classes, a project that had several phases: locating the manufacturer name and part number for each record and removing supplier duplicates; classifying or categorizing the items based on their descriptions; itemizing and rationalizing more than 400,000 pieces of data to form a catalog of unique parts or items; and analyzing the data, reporting the findings and providing recommendations.

PK deployed a team of 40 research analysts to locate the manufacturer names and part numbers to categorize the items. The cleansing, classification, enrichment and collation process was completed in about six weeks.

Among PK's findings were that some suppliers were revising prices more frequently than normal. Typically a supplier adjusts a product price once or twice a year; some of the client's suppliers, however, were changing the price of a product up to 20 times within that period. The team also uncovered a number of suppliers who were listed under different names but who belonged to the same parent corporation – and some pricing varied for the same products being supplied by other companies within the same corporate group. Each time a company changed its listed name with the client, the price of a product could go up or down.

To address these disparities and identify opportunities for savings, PK recommended that the client implement a supplier rationalization process that would enable more scrutiny when a supplier changes its name. The team also recommended that the client undertake supplier normalization, which is the process of taking supplier names with multiple spellings, misspellings or abbreviations, etc. and cleaning them up, or normalizing them for consistency. This process would provide the client with visibility into spending across the board and help improve processes, providing a significant, cost-savings opportunity and a strong negotiation tool for further sourcing strategies.

To address the concern over differing prices offered by companies owned by the same parent organization, PK recommended that the client place a greater emphasis on comparing key business terms, aggregate spend by supplier and parent company to enhance sourcing leverage and negotiating power, and consider balance-of-trade in pricing and procurement-sourcing decisions.

At the high level, the PK team compared and transformed the data into meaningful business information that could be analyzed in a variety of ways, from order type volume versus spend, to material class spend versus order lines, volume-based top suppliers, regional spend distribution and more.

Based on the spend analysis, the client was able to identify and take corrective actions about the inefficiencies in its procurement system, enabling it to reduce maverick spends and disparity and better supervise supplier relationships, manage risk, recover over-payments and benchmark its relative position – for an estimated total annual savings of $1.4 million.

Relevant Statistics

- Spend analysis leads to estimated total annual savings of $1.4 million.
- Inefficient procurement tools are costing businesses in the United States and Canada more than $1.5 billion per year and wasting more than 32 million man hours.[1]
- Spend management initiatives helped global corporations increase their contract compliance by 30.6 percent, yield savings of 92 percent from improved sourcing activities and boost their return on investment by some 40 percent.[2]

[1] Survey Finds Inefficient Procurement Systems Cost North American Businesses $1.5 Billion Annually. SciQuest. September 24, 2014. http://finance.yahoo.com/news/survey-finds-inefficient-procurement-systems-120000706.html

[2] A smarter way to spend your money. Supply Chain Quarterly. Quarter 3 2009. http://www.supplychainquarterly.com/topics/Finance/scq200903spend/#fnr1