

Clorox Finds Savings through Transportation Analytics that Reduce “Leakage” from Carrier Contracts to Execution

43% of Lanes in Bid Optimization Programs Exceed Expected Costs, Research Says; Post Bid Audits Shrink that Number Dramatically

SCDigest Editorial Staff

“Carried bid optimization” programs and technology can deliver significant savings to companies in procuring transportation versus current rates, but too often those potential savings are lost in both the negotiation and execution phases.

That’s what **John Wooten**, logistics procurement manager at Clorox, recently told attendees in an excellent session at the annual CSCMP conference in Chicago.

Carrier bid optimization generally refers to the formal process of having a wide number of carriers bid on specific lanes and lane combinations, using specialized software to analyze and refine the bids over several iterations, as different groups of lanes for specific carriers and where they can be most competitive (and have network leverage) emerge.

Many studies have shown the contracted savings can be substantial, but will those theoretic savings really make it to the bottom line?

That was the concern Wooten had, citing data that showed there were several points of “leakage” in the total process that could often lead to a loss of potential reductions in freight spend. (See graphic on page 2).

Wooten says this leakage can occur in a number of places in both the negotiation and execution phases.

For example, in negotiations, it could be that the baseline data in terms of moves and lanes is incomplete or not accurate enough, leading to bids that don’t well match how freight will move over terms of the contract.

Wooten cited statistics that said on average, 43% of a company’s lanes will exceed expected contract freight cost from a bid process by at least 10%. Only 13% of lanes will have no variance.

A number of factors can create leakage in execution, Wooten said, ranging from business changes that impact freight movements, carriers not fully honoring their bids or capacity commitments, or transportation planners ignoring or discounting the planned carriers and percentage utilization in a lane.

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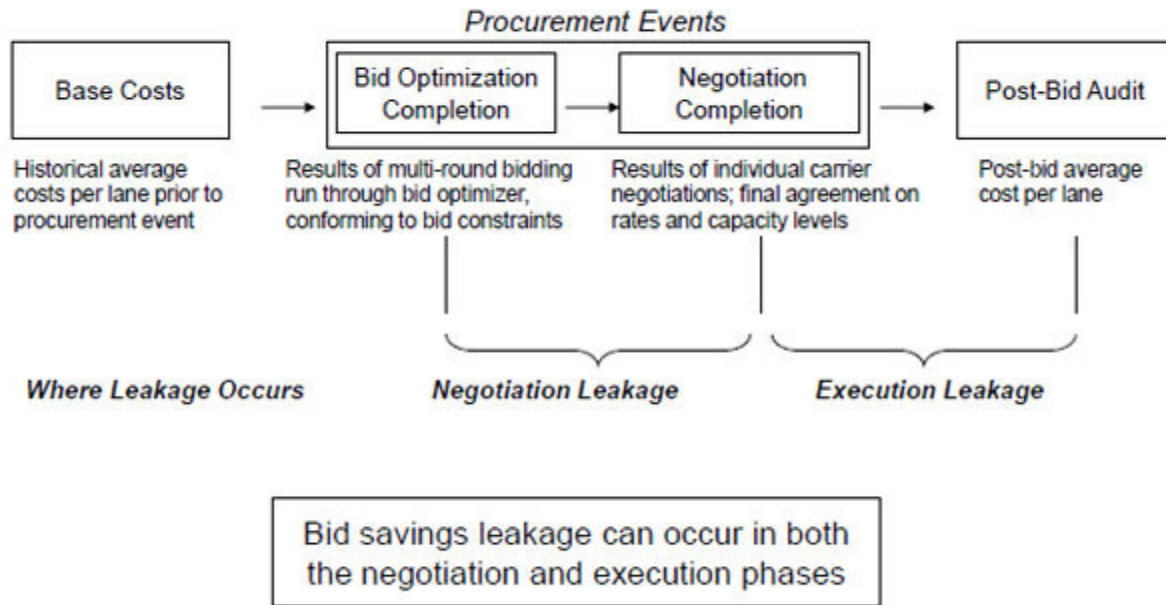
Clorox Uses Business Intelligence to Reduce Variance

Recently, Clorox executed a highly successful carrier bid process, knowing it was a “buyer’s market” for freight in the recent environment, a process that was “even more successful than we expected,” Wooten said.

And showing just how important the supply chain is becoming to Wall Street, those expected savings, which would in absolute numbers be a large amount for a company moving as much freight as

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What is Bid Savings Leakage?



Source: Clorox, Chainalytics

Clorox does, were included as part of the financial guidance the company gave to Wall Street analysts – increasing the stakes for making sure the savings were really captured.

Understanding the likely potential for leakage, Wooten and others at Clorox were determined to minimize the impact. While a small amount of leakage is probably inevitable, the goal was to keep leakage down to the low single digits.

Key to achieving that goal was the development of a new transportation “Business Intelligence” system, or BI.

Clorox developed the BI system to mine its transportation data with the help of consulting firm

Chainalytics.

“Bid leakage can only be understood at the lane-carrier level,” Wooten said, and the BI system was created to give them deep insight into what was happening by lane and carrier.

Some information and insight is obvious – for example, if a planner is simply not consistently using the contracted carrier(s) in a lane, going with higher cost carriers for whatever reason. Others are less obvious or harder to find, such as a carrier that is not meeting its capacity commitments. Without a BI tool it is very hard to really unearth this information.

The system also identifies lanes that are not consistent with the bidding process. For example, business or cus-

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tomer changes might create much higher moves in a lane than expected at the time of the bid. In some cases, the lane might not even have been bid at all; in other cases, it may have been bid on very low volumes.

Identifying that situation enables Clorox to look to negotiate with the carrier if it is already contracted for the lane, or to do a “mini-bid” process if it was not contracted at all.

Clorox accomplished this by monthly “post bid audits” using the BI tool. Not only does it help them identify the types of issues discussed above, the system also allows Clorox to understand variances by whether they are controllable or uncontrollable.

Given this information, Clorox can hold planners responsible for meeting bid expectations, modified as required by uncontrollable factors.

As a result of the system and process, Clorox has in fact been able to keep the leakage to the low single digit levels, saving the company big dollars and ensuring most of the expected savings were in fact realized.

“The system allows our planners to focus on strategy and relationships,” Wooten said. “We think there is a lot more we are still capable of doing.”

