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Do Inbound Freight Management Programs Really Deliver?

by **Finesha Colton-Lee, C.P.S.M.**
Emory University

For decades, procurement professionals in the healthcare industry have relied on third-party logistics (3PL) providers to simplify processes and to generate cost savings. As the lines have blurred between healthcare and higher education, the inbound and outbound freight management portions of these services are now being marketed to institutions with the promise of capturing substantial cost-savings while requiring minimal effort. To some, the sales pitch may sound too good to be true. However, those who have taken the leap, such as Emory University in Atlanta, are already seeing positive results.



The Sales Pitch for Inbound Freight Management

Freight management programs can cover both inbound (coming to campus) or outbound (going from campus) freight. According to the 3PL providers currently in the higher education market, freight management is a simple and easy way to save significant amounts of money, with the largest amount of potential savings to be captured through inbound freight management.

On average—assuming no supplier agreement in place for shipping—institutions pay the carrier's list price for inbound shipments. Until recently, institutions had virtually no way to control these costs. However, with the intercession of 3PL providers, inbound shipments are concentrated to a central shipping account that can offer significant savings for the institution. The savings can add up quickly, especially for suppliers that deliver frequent, small shipments. The promise from 3PL providers is an average of 40 percent. Institutions will also aggregate volume with carriers (i.e., FedEx or UPS), which may move them to a better pricing tier. Depending on the contracts accessible by institutions, rebates can add to overall savings. With the 3PL providers bearing the burden of supplier setup and system customization, little work is required by the institution. The 3PL providers are then paid based either on

the savings they provide or a per-transaction fee. From the customer standpoint, it all sounds too good to be true.

Why We Bought Into It

When it came to seeking out savings at Emory, inbound freight management was a previously untapped resource. However, we didn't realize our actual opportunity for savings until we started to closely look at the situation. We began by evaluating our potential opportunity by looking at a basic freight report, which we were able to produce because it is our common practice to record shipping charges on every supplier invoice. In an analysis of our shipping spend, we discovered that even some of our best contracted suppliers were charging freight amounts that didn't fall in line with our own institution's FedEx rates. We believed such a program could help us maximize our resources, from taking advantage of rebates to stretching every dollar we spend. If we could take control of our inbound shipping, these dollars should be easy to capture.

In order to make the decision on which 3PL provider would best meet our needs, Emory developed a must-have list. Implementing a freight management program needed to be simple and require a small investment of our time. We also had special requirements: (1) ability to work with

our e-Procurement and financial platforms; (2) separate billing to the internal accounts as designated on individual line items of our purchase orders; (3) provide data in a way that our customers would be able to easily track their shipping costs for each purchase order; and (4) provide reporting that we could use to both monitor the program and share with leadership. Based on the capabilities available at the time, Emory elected to partner with Vantage Point Logistics (VPL) and FedEx.

Our Implementation Process

Emory formally adopted the inbound freight management program in late Fall 2012, and as VPL will attest, we were not an easy customer by any means. Because such programs were new to higher education at the time, we wanted to test the waters before diving in. We elected a rollout approach for our implementation, both in regard to our systems and our supplier selection. At our request, the first phase of our rollout lasted four months and involved only a dozen suppliers. By moving forward slowly and on a small scale, we allowed ourselves a comfortable time for in-depth analysis, and we were able to easily correct system issues and understand supplier response. With peer results now being more readily available, a

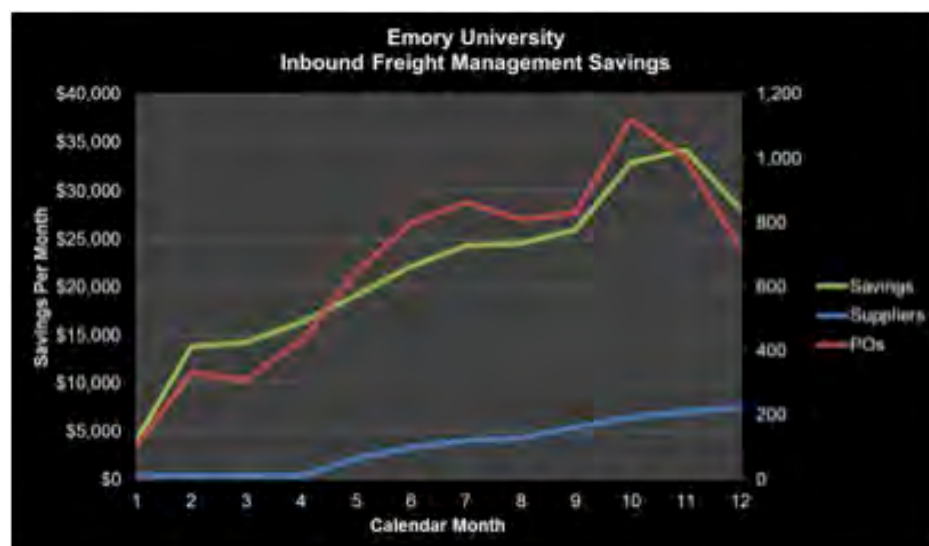
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slow rollout approach may no longer be necessary. However, with technology sometimes being what it is, we do recommend a limited period of system testing on a handful of suppliers before moving forward with a full-scale implementation.

In order to begin the system implementation, VPL requested that we regularly provide certain PO and invoice data it needed to match the FedEx account charges and to verify that suppliers were compliant. We provided this data daily. Now, we have automated the data feed through our financial system, and VPL can access it through a File Transfer Protocol (FTP) site, meaning that we no longer have to manually send data feeds.

Before beginning our supplier implementation, VPL supplied recommended drafts of supplier and customer communications, which we then tailored. Our selection of suppliers for the first phase of implementation was critical for understanding how our suppliers might react and where we might see the largest savings. We made our decision by looking at the suppliers with the highest shipping charges and then selecting a small assortment of suppliers having various characteristics (industry, size, contracted vs.



non-contracted, and known and unknown shipment sizes). We then provided the supplier list to VPL. It contacted the suppliers using the pre-approved communication and then set them up. At that point, all that was left to do on our part was customer communication via our website and due diligence to ensure we are really capturing the promised savings. Even as we implement

new suppliers today, we still manage the process very carefully and ensure that the supplier is not already party to a shipping agreement.

Determining Actual Results

To really understand the results that an inbound freight management program can provide, it is important to note that no 3PL provider can

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Month	Suppliers	POs	Savings	Savings/PO
1	12	104	\$4,046	\$39
2	12	331	\$13,790	\$42
3	12	309	\$14,237	\$46
4	12	435	\$16,353	\$38
5	64	647	\$19,057	\$29
6	99	799	\$22,158	\$28
7	121	863	\$24,319	\$28
8	128	810	\$24,535	\$30
9	164	831	\$25,938	\$31
10	193	1,121	\$32,922	\$29
11	211	1,000	\$34,195	\$34
12	223	719	\$28,050	\$39
Total	223	7250	\$231,551	\$32

provide an exact dollar amount or percentage of savings. The savings they report are based on the carrier's list price, which may be actual savings for some suppliers but definitely not for all.

While somewhat arduous, your own due diligence will likely produce the best approximation of actual savings after your freight management program is in place. The method that Emory uses in reporting actual savings is calculated by comparing shipping charges on selected identical shipments before and after the freight management program and determining an accurate savings average per supplier. In these analyses, we have identified several suppliers that have as much as 65% savings, and others with as little as 2%. In only two instances out of 200-plus sup-

pliers currently on our program, we have identified no savings or spent more on shipping, with VPL quickly taking the lead to remove the supplier from our program. Currently, Emory's overall percentage of actual savings is about half of the list price estimates reported by VPL, but our savings is still an impressive 35%-plus overall for the implemented suppliers. While there may be some margin of error in the numbers, we have no complaints with the positive results and consider our program a success worthy of sharing with our peers.

Our Year in Review

As of December 2013, Emory had used the inbound freight management program for one full year. The results of the first year of our program as reported by VPL can be found in the data and chart provided, with the first four months being the initial phase of our rollout. Again, the savings shown are based on our carriers' list prices, reported at 65 percent overall savings.

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This is contrasted to the conservative estimate of 35 percent savings that we calculated. Take the percentage differences into account for a closer approximation of the actual results.

Since the inception of the program, Emory has maintained a conservative estimate of \$17 savings per purchase order. When thousands of POs are processed by those suppliers in a year, the savings add up. For Emory, the most conservative overall savings exceeds \$150,000 for a very small portion of our supplier base. With that in mind, our current initiative to maintain success is to continue implementing qualified suppliers into the program and to continue performing our own due diligence. And, while we do keep our 3PL provider on its toes, we recommend inbound freight management without hesitation as a program that actually does deliver on all of its promises.



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