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GTM Case Study: How a Fortune 500 CPG Company Saved $12M by Reexamining Its Ocean Spending

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When transportation and commodity costs rise like they did from 2006 through 2008, many companies examine their logistics spending to look for ways to save money. Should they switch carriers? Should they find alternative sources closer to home? Are carriers actually charging the agreed-upon rates?

But when these same costs fall, there's temptation to relax these cost savings efforts. Companies incorrectly assume that because transportation costs are so low, it's not worth their time to examine rates and compliance, thinking the savings won't justify the effort. But this couldn't be more wrong.

One Fortune 500 consumer packaged goods (CPG) company saved nearly $12M on over $100M in ocean transportation spending through good times and bad by using the Freight Contracting and Ocean Visibility modules from **GT Nexus**. The company blew away expectations for the project, achieving its five-year goals in less than a year:

- **Optimized spend**—In the past, the company managed procurement in Excel spreadsheets, which didn't allow for optimization scenario planning and what-if analysis. The company can now make better sourcing decisions.

- **Greater contract compliance**—Before, the manufacturer had little visibility into its worldwide business units to see if they were using preferred carriers and benefiting from pre-negotiated rates. Now it can.

The implementation of the system came in under budget by about $100,000, and the application quickly became the gift that kept on giving.

The business problem

The global logistics procurement department suspected it had a problem. There's just no way a company can efficiently manage more than $100M in spending on ocean logistics in an Excel spreadsheet. It suspected that individuals weren't using preferred carriers, but it was difficult to pinpoint or quantify the actual loss, especially since the sheer scale of the problem was daunting:

- The company's spending covers more than 20,000 rates from more than 20 ocean carriers.

- There are more than 200 internal stakeholders representing various business units globally.

- Microsoft Excel has little compliance functionality, thus users could alter rates/bids after they had been submitted.

The organization knew it wanted to use global trade

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management (GTM) software to help, so in the second quarter of 2008, it started the RFP process.

Evaluating technology

The company knew it needed to install better, repeatable control processes over its ocean spending to increase compliance and reduce costs. It strongly suspected it needed software to help manage any newly improved processes. Any software it evaluated would need to integrate easily with the organization's ERP system, provide stringent freight bid and audit controls, and offer visibility into shipments worldwide. Executives agreed, and the project was approved.

"We need to stick to the plan. We now have the potential to create sustainable efforts." —The CPG company's logistics manager

During early 2008, the company reviewed software products that might help. In September 2008, it finally selected GT Nexus, a California-based firm that provides a trade and logistics management platform that's software as a service (SaaS) based. Implementation of the system only took a few weeks, with the company holding seven 30-minute training sessions for staff. After that, the ball was rolling.

Benefits blew away expectations

Before the software even had a chance to prove itself, the project started off on the right foot: The implementation of the system came in under budget by about $100,000, and the application quickly became the gift that kept on giving. The company created a five-year project plan with a projected ROI of several million dollars.

The goals included the following:

- Drive out inefficiencies in inventory management
- Lower demurrage costs and other fees and fines
- Enforce allocation compliance (i.e., ensure procurement staff selected preferred carriers)
- Optimize bids based on costs and services

The company hit nearly every goal within the first year:

- One of its logistics providers accessed the system to better manage the inbound flow of inventory. By timing pickups more accurately, this activity saved the company approximately $1M in demurrage costs. The savings were immediate and noticeable, but they were far from complete. Broader use of the tool among business units is planned for 2010. Universal use of the tool is needed, but the change management process is still unfolding.
- One business unit was arbitrarily booking freight with non-preferred carriers. By forcing this group to book freight through the GT Nexus system, compliance increased to nearly 100%, with another $1M savings in freight costs.
- Through the GT Nexus platform, the organization saw that some suppliers were booking with local logistics providers instead of using the shipper's globally negotiated contracts. It contacted these suppliers to enforce compliance and now saves over $500 per reefer container.
- Now that it has more control over its own bookings, the company provides leverage with the carriers and additional negotiating power. The carriers know that although it would be unlikely for the company to completely abandon a particular carrier, it could decrease its spending.

So what does the future hold for this organization? "We need to stick to the plan," said the logistics manager. It needs to continue to enforce contracting compliance and look for new opportunities to save. "We now have the potential to create sustainable efforts," he continued. Additionally, the company will roll out the application to all business units and product lines. Right now, it's only being used by a few of the units.

Other creative ideas include using ocean transport as temporary warehousing. By achieving increased visibility into both the location of inventory and the time spent in transport, the company can decrease the

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amount of buffer stock it needs to purchase and warehouse in the United States to fulfill orders. Right now, it's not unusual for the company to warehouse items for up to six months, so it's looking to reduce these carrying costs.

Lessons learned

Even though the project has been a huge success thus far, no implementation is perfect. The company met with some challenges and learned some lessons along the way:

- **Start with what's measurable.** User adoption for the ocean visibility module continues to be a challenge. With an ROI that's harder to quantify than the freight contracting module, enforcement has been more difficult. The company takes some of the responsibility for this, admitting it might partly be a change management issue on its part. Additionally, it suspects there are some users who feel threatened by giving everyone visibility to the current status of all their shipments. The lesson? Start with projects with clearly defined cost savings or ROI.

- **Define goals and prove results.** Although the company is clearly a strong proponent of the GT Nexus system, it does admit that some of the savings is partly because of the fluctuations in ocean transportation costs. But it has enough examples (many of which are outlined in this case study) where it can prove the benefits were all directly attributable to the use of technology. Thus, the organization recommends clearly defining the goals and results to justify the project to executive management.

- **Clean up your data with technology.** Even the best software can choke on bad data. Both the company and GT Nexus work with carriers to provide more timely and accurate information. Before GT Nexus, the organization e-mailed its carriers on nearly a per-shipment basis. Now it can communicate with them en masse in real time through the GT Nexus network. Additionally, the more the carriers use the system, the less time they'll spend on manual corrections. This will save everyone time in the end.

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