

**White Paper Discussion**

**“Emerging Best Practices for Order Data and Logistics”**

# ***ORDER LOGISTICS***

**“Beyond Business as Usual”**

**[www.OrderLogistics.com](http://www.OrderLogistics.com)**

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## Overview

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ORDER LOGISTICS, Inc. (“ORDER LOGISTICS”) was founded in 2005 and has helped great companies discover, manage and execute effective global supply chain strategies ever since. We exist to add real, measurable value throughout our customers’ fulfillment process – the emphasis is on customers. Our team and technology create value-added solutions that allow organizations world class visibility, information and controls without disrupting existing plans and systems. Our organization is composed of three complimentary service offerings:

- “Order Logistics” brings a unique technology solution to the marketplace, allowing an organization to obtain complete visibility throughout their supply chain without disrupting the value of their existing network.
- “Transportation Management Solutions” (TMS) provides customers with a robust and dynamic load solutions application, providing optimization technology, modal transport selection, freight performance management, financial services and data management / tailored reporting.
- “Supply Chain Engineering and Consulting Solutions”, called SOLVE (IT)<sup>2</sup>, has vast professional experience evaluating financial implications, productivity opportunities, current processes, and resource availability to determine the most effective supply chain strategies for world-class companies.

ORDER LOGISTICS currently manages data, financial services, and reporting via internet-based solutions technology for medium-sized manufacturers and Fortune 1,000 organizations looking for a common platform to integrate their existing information infrastructure and fulfillment strategy. In particular, we believe medium-sized manufacturers grew quickly, without the necessary technology platform needed to support multiple facilities or internal systems in today’s marketplace. These customers are unlikely to invest the two to four years of implementation time and \$5 – \$20 million in capital expenditure to effectively rollout an enterprise wide ERP solution. Order Logistics allows companies to obtain the necessary technology and effectively manage the flow of materials, information and funds throughout the entire supply chain. We leverage our technology, team, operational expertise, and a high capacity network of transportation providers to solve logistical problems and provide end-to-end solutions for our customers, allowing them to gain control over a unique distribution network and utilize existing information systems to their full capacity.

## Industry Background

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The United States Logistics industry accounts for over \$300 billion in annual revenue and is largely comprised of small management companies with gross revenues of less than \$20 million. The Third Party Logistics (“3PL”) market is highly fragmented with the largest customer volumes being managed by the largest Tier One providers. According to Armstrong & Associates, an independent consulting firm specializing in third-party market research, the market can be divided into three segments.

1. “Tier One” companies (i.e. Ryder, Penske, CH Robinson, and Menlo Logistics) are large organizations with sophisticated proprietary technology and management expertise to handle Fortune 100 global customers who turn their entire logistics operations and strategy over to a 3PL. Tier One organizations focus on cost reductions by leveraging freight volumes with carriers to negotiate better rates and service. This is becoming increasingly difficult in today’s capacity market, as freight rates have risen dramatically in the past 18 months.



2. “Tier Two” companies such as Customized Transportation Inc. (CTI), GATX, and Mar VII are those with net revenues of less than \$100 million. They are large enough to provide complex supply chain software to their customers, typically large manufacturers within their market space.
3. “Tier Three” companies include thousands of brokers and small consulting companies with net revenues of less than \$20 million. These organizations tend to engage in non-complex freight and have little to no technology available at their disposal. This group is unable to leverage the carrier as the capacity market tightened and is having a hard time competing and adding any value in the market.

## **Order Management Challenges**

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- Shippers have limited visibility, and there are issues managing the procurement process across multiple suppliers, factories and business units such as:
  - P.O. management
  - Release confirmation against the P.O.
  - Confirmation of the release quantity by the supplier
  - Matching the released quantity to the shipped and received quantity
- Manufacturing shippers have a difficult time competing in technologically advanced marketplaces (i.e. Wal-Mart, Home Depot).
- Shippers have a difficult time determining the true landed cost and margin in evolving supply chains and supplier sourcing initiatives such as global suppliers.
- Supplier releases and transportation activities are often not integrated with manufacturing systems.
- Mid sized manufacturing enterprises do not have the necessary capital to acquire major ERP systems (i.e. SAP, J.D. Edwards, etc.).
- ERP systems are focused on internal users, not collaboration with suppliers and other supply chain partners.
- Limited visibility to the transportation processes and goods in transit.
- Increased difficulty with managing supplier activity and associated quality.
- Complexities of managing supplier compliance to mandatory requirements for SOX, etc.

## **Elements of Supply Uncertainty**

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- Lead time to supply replenishment. Manufacturers of all sizes struggle with differing supplier lead times. In less sophisticated manufacturing environments, the solution is often more standardization of the release process regardless of the stated supplier lead times. This initiative alone drives up raw material inventories more than any other factor.
- Quantity supplied against the actual scheduled requirement. Since most suppliers build products in a batch environment, the release strategy frequently follows their own production schedules. Without collaboration and control, the inventory inefficiency and cost is passed to the manufacturing customers.
- Quality of supply, while improving at all levels of manufacturing, still remains a major issue for the manufacturing customer. The quality issue coupled with a manufacturer’s inability to retrieve data or present accurate supplier scorecards makes it difficult to drive this cost out of the production environment.

- Data accuracy and visibility to actual products supplied is a significant issue at every level of manufacturing. Based on numerous studies and factory visits, the variance between released quantities, shipped quantities, factory received quantities and consumed quantities continues to be a major cost element within all levels of manufacturing that is not easily identified with current data platforms.
- Discipline by production planners to utilize optimum contracted prices or excessive use of spot pricing for specific parts is essentially an unplanned cost element within a manufacturing environment. The cost variance is often flagged with less than optimum data collected by the manufacturer.
- Carrier availability and reduced carrier capacity has resulted in significant increases in transportation and distribution costs. While the present transportation environment has seen significant rate increases by all types of carriers, the productivity of the transportation network is not actively measured. Existing transportation data is often not sufficient to enable solutions to reduce total costs, improve transportation productivity or to insure proper mode selection and cost optimization.

## **Present and Future Trends in Supply Chain Management**

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*“What defines a New-Economy company? Globalism, speed, communication, innovation, technology, and strategic vision” – Wired Magazine*

Today, most firms equally consider all nations as markets and sites for production. During the past 20 years, the 3PL market primarily focused on freight “price” reductions to improve transportation costs. These savings were created without regard for the collaboration needed throughout the enterprise and the actual total landed cost for their products. In 1999, over 39% of Fortune 500 companies were considering outsourcing their entire supply chain and many did so. However, these organizations found that once they turned these functions over to a single 3PL, they lost control over two very important core competencies: (1) relationships with transporters and (2) overall supply chain strategy. According to AMR research, companies pursuing supply chain excellence in 2004 were evaluated, “according to their ability to forecast demand accurately and then use these demand signals to proactively manage their extended supply chains. The use of leading-edge technology, especially internet-based technology, is a key common denominator among all of these top companies”. At a strategic level, all leading supply chain organizations have tightly aligned their operational model and logistics solutions. They understand that value chain performance translates into demand forecasting accuracy, productivity, perfect order fulfillment and increased market share.

As global sourcing and the “New Economy” shifts standards, the best run companies must achieve the flexibility to quickly adapt to current market demands and opportunities

In the future, the “best of breed” 3PL providers should allow customers to:

- Capitalize on the strengths of existing relationships in a tight market.
- Collaborate and improve throughout the supply chain on a common platform without disrupting the existing logistics network.
- Utilize internet-based technology to drive visibility, communication and service among all supply chain partners.
- Control their strategy while discovering new opportunities for current infrastructure.

- Integrate all business units and processes around simplified supply chain management data and information systems.

*“Companies need just the right mix of transportation services, technology, information, data management and supply chain solutions. The information about the contents of a load is as important as the shipment itself. Real-time information helps customers manage supply and demand in the global marketplace.”* - Brian P. Griffin, President of Order Logistics, Inc.

### **“Best of Breed” Web-based Logistics Platform**

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Technological advances allow organizations to manage and measure the inbound and outbound orders of an organization via a web portal. The portal is a completely integrated platform supporting security between business units, suppliers, carriers and customers. One of the main benefits is that it acts as a central repository for data covering the entire supply chain and can be used to collect and report on all logistics activities and integrate with other service programs. In addition, such a system can manage all purchase orders, bill of materials, supplier releases, inbound supplier shipments and on-hand inventories. Often the data for an organization is present but difficult to extract, resulting in a lost business opportunity.

A state-of-the-art management information system enables total customer visibility and control in managing the procurement process across multiple suppliers, factories and business units. The technology is driven by customer business rules, which allows the organization to start with best practices and adapt to customer needs. It is a common platform with an advanced integration system (EDI, flat file, XML, paper, FAX, phone etc...) that provides online vendor order status for production planning, vendor payment of invoices based on contracted pricing, complete goods order data, shipment tender and carrier acceptance (at order level detail), freight payment for the entire transportation network, data management, supplier invoicing, order exceptions and billing exceptions.

### **“Best of Breed” Platform Objectives**

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Create opportunities to reduce raw material inventory levels without sacrificing responsiveness or creating shortages. Follow a disciplined approach providing value added solutions throughout the supply chain. This value has become one of the central forces behind corporate value creation, representing virtually all forms of excellence in the global marketplace. The fundamental parameters of “best practice” value-added solutions are speed, information, coverage and reliability. Here are some examples:

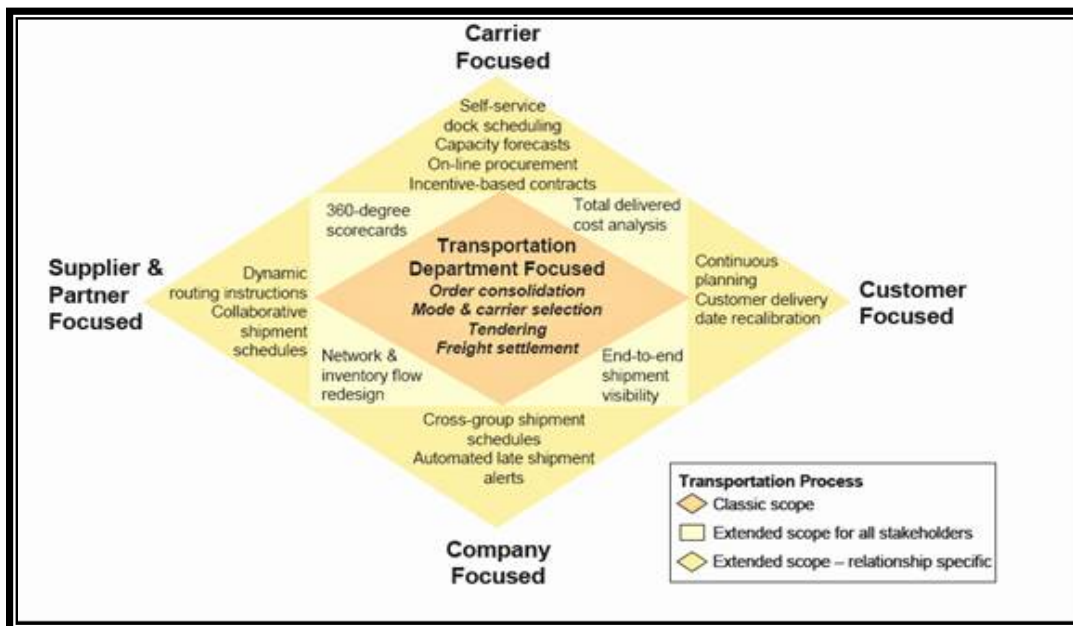
- By collaborating with the supply base, procurement and replenishment activities lower raw materials inventory while actually improving customer responsiveness.
- Web confirmation of the order requirement via the web by the supply base confirms that product supply is available to ship and will meet production requirements. If not, it is an early warning signal, permitting alternative action before a parts shortage actually occurs.
- Improved visibility to manufacturing requirements and demand fluctuations reduces the need for expediting and helps lower supplier costs. Users can reduce expenditures on premium freight and lower the cost of goods sold.

- Users can respond more quickly to changing customer demand. Improved demand visibility and supplier collaboration ensures supplier lead times are met.
- The system facilitates enterprise-wide execution against negotiated supplier agreements and quantity discounts, resulting in actual savings and reduced costs.

Other factors such as supplier lead time, quantity supplied, quality of supply, data accuracy, optimum contracted process and capacity are elements of supply uncertainty that can be managed and executed effectively.

Most mid-sized manufacturing enterprises do not have the capital or time necessary to acquire a major ERP system. However, businesses need a comprehensive solution that does not require a tremendous investment of time and money before seeing demonstrable results. Once the proper solution is found, users realize a faster return on investment, with less risk, higher quality and lower total cost of ownership, while retaining key supply chain partnerships and service levels.

During the last 20 years many manufacturers focused technology spending on internal mainframe or A/S 400 systems, leading to multiple systems being used as these organizations grew. These were designed to achieve internal efficiencies, but the ability to integrate them has been difficult, almost impossible. It is now possible to utilize a single web based platform to capture and/or accept data from other platforms (vendor, customers, and existing legacy, A/S400 and ERP systems) to create a single repository for all operations and activity within the supply chain scope. Users are now in a position to collaborate with partners, manage activities, track total landed costs and have visibility to parts and products throughout the logistics channel. To get ahead of the competition, world-class companies are positioning technology spending and strategy around business-to-business integration. They will leverage partner relationships to increase visibility and responsiveness, improve quality, and expand their markets. Companies using the best web platforms have a competitive advantage as the entire B2B value chain joins forces and synchronizes as one “virtual” corporation with enormous resources.



The Competitive Framework model defines enterprises as falling into one of the three following levels of performance:

1. Laggard (30% of companies) – use the classic scope
2. Industry norm (50% of companies) – use the extended scope for all stakeholders

3. Best in class (20% of companies) – use the extended scope – relationship specific, and use practices that are clearly superior to the other 80%

## **Evolving Customer Strategy: Traditional to Emerging**

The traditional logistics providers have essentially focused on doing the same things cheaper. This is difficult in today’s transportation market as quality delivery capacity is at a premium and freight rates are rising as much as 10% per year, creating a virtual death sentence in the marketplace for “doing the same things cheaper” via the traditional brokerage solution. Real savings are not associated with rate auctions and hard-nose negotiations with transportation providers, but are found in terms of streamlining the entire supply chain process and harnessing the power of e-commerce, productivity and value-added services. A company’s ability to forecast demand accurately and use this information to proactively manage their extended supply chains is where the real value is. The use of leading-edge technology, especially internet-based technology is a key common denominator among all of the leading supply chain companies, like Wal-Mart and Dell.

*“Excellent supply chains support the strategic imperatives of an organization needed to compete more effectively.”* Larry Lapide, Research Director for the MIT Center for Technology and Logistics

## **Evolving Sources of Value-added in Supply Chain Management**

Customers expect third-party providers to add value within the supply chain as they gain knowledge of the organization’s operations and strategic plans for the future. These increased performance requirements continue to fuel outsourcing activities. The required sophistication is beyond most 3PL providers and transporters. According to *Inbound Logistics* magazine, 97.5% of the third party market is still searching for added-value propositions.

There are numerous opportunities and areas for improvement in this market. Here is a list of the major issues that surfaced for those organizations that recently outsourced their logistics functions:

<u>Issue</u>	<u>% of Respondents</u>
1. Service level commitments were not achieved	62
2. Transport price increases once the partnership was formed	51
3. Cost reductions were not realized	47
4. Effort spent on logistics has increased	42
5. Difficult transition during the implementation stage	29

Source: Cap Gemini / FedEx / Georgia Tech Survey – 2004

Obviously, the “old” 3PL model of doing the same things cheaper is not working in today’s market. Quality delivery capacity is at a premium and third parties trying to drive out costs through a flawed continuous bid process are failing. These companies fail to add value because they are only focused on price. We believe that prices are actually going up for the next five years and there will be little to no ability to reduce this 6% of the overall supply chain costs. By focusing on the other 94%, there is a continual process improvement opportunity to provide visibility, improve execution, reduce total landed costs, and deliver value within an enterprise by maximizing performance and speed-to-market, while reducing inventory and materials carrying costs. More importantly, users need support for their individual strategies, operating models and execution to achieve their overall business objectives.

Finally, best-of-breed toolsets should enable organizations to successfully embrace the 3Cs of supplier management – Certification, Compliance, and Collaboration. Certification and Compliance refers to management of both internal and external operational mandates placed on an organization and its suppliers. Collaboration refers to real time communication between and organization and its suppliers. All 3Cs must be effectively managed in order for an organization to achieve its potential.