



Freight Services





Background

CASME RoundTable meetings on Freight Services were held in Australasia, Asia, North America and Western Europe. The following main topics were discussed:

- Stakeholder engagement
- Company requirements
- Industry and financial analysis
- Strategy development and execution
- Contract negotiation and implementation
- Performance management
- Trends and technology.

This Digest provides the key points, good practices and insight of future trends identified by CASME members at RoundTable meetings held around the world.

Stakeholder Engagement

- The key stakeholders for freight services are the budget holders and the decision-makers within Logistics, Supply Chain, Manufacturing, Operations, global and regional transportation teams, Sales, Finance and Customer Services.
- Procurement is effectively improving and maintaining stakeholder engagement by identifying and engaging with the stakeholders to develop relationships, gain an understanding of their requirements, and keep them informed of freight-related activities, as well as obtaining their input and involving them in developing the category strategy and throughout the procurement process, in order to benefit from their expertise and achieve successful results for the organisation.
- Approaches for overcoming resistance from stakeholders to engaging with Procurement include presenting them with spend analysis data, demonstrating category knowledge and using the relevant terminology, using lessons learned and success stories from previous sourcing projects to gain the stakeholders' confidence in Procurement's capabilities and assist their decision-making, and providing them with examples of the best practices that are being applied in other organisations in the same industry, and how these have delivered successful outcomes.
- Procurement may also mandate its involvement in projects with spend above a defined threshold, and apply a top-down approach by obtaining support from the relevant senior executives to encourage the stakeholders to collaborate with Procurement, and establish a project governance group to bring all the key stakeholders together to discuss, implement and manage freight services strategies.
- The COVID-19 crisis has increased recognition of Procurement's value and the importance of freight services in obtaining the company's business objectives. The stakeholders have approached Procurement for assistance, and Procurement has optimised supplier relationships to resolve issues and reduce costs. As a result, engagement and two-way communications between Procurement and the stakeholders have improved, and the flexibility of the stakeholders in accepting changes has increased.

Company Requirements

- The requirements other than service quality, on-time delivery and cost that influence the selection of freight services providers include strategic objectives such as co-ordinating the supply base or establishing sustainable solutions, as well as tactical objectives such as improving geographic service coverage, chain of responsibility and risk management.
- Important criteria for the selection of freight services providers includes their service capabilities and capacity to fulfil the organisation's requirements on an ongoing basis, industry-specific experience and provision of specialised services, technological systems for simplifying processes, tracking goods in transit and providing real-time data, compliance with regulatory requirements and safety standards, use of subcontractors and the associated due diligence, and business continuity strategies.
- Companies' policies and targets regarding environmental sustainability and carbon footprint reduction are being incorporated into freight services requirements by maximising space utilisation within containers, optimising the distribution network, consolidating and reducing the number of deliveries, collaborating with the service providers to establish achievable targets, replacing conventional fuel-operated vehicles with electric vehicles, investigating alternative solutions for last-mile deliveries, and including a clause in freight services contracts regarding reduction targets and monthly reporting for CO₂ emissions.



Industry and Financial Analysis

- Procurement is conducting financial analysis and benchmarking regarding freight services by collecting internal data from different regions and countries, performing regular spend analysis to understand how the spend is divided between the different modes of transportation, comparing rates and prices against the previous prices paid, conducting route analysis to identify opportunities for optimisation and cost reduction, and using the information obtained from service providers through requests for information, quotation and proposals (RFxs) to gain current market insights that can be used for formulating the strategy.
- Procurement obtains industry and financial insights from consultancy companies and market intelligence providers such as:
 - [Beroe](#)
 - [Chainalytics](#)
 - [Data2Logistics](#)
 - [Deloitte](#)
 - [Drewry Shipping Consultants](#)
 - [FreightWaves](#)
 - [IATA](#)
 - [IBISWorld](#)
 - [Logistics Bureau](#)
 - [ProcurementIQ](#)
 - [Seabury Consulting](#)
 - [SI Logistics](#)
 - [The Chartered Institute of Logistics and Transport](#)
 - [The Hackett Group](#)
 - [The Loadstar](#)
 - [The Smart Cube](#)
- Consultants may be engaged to review companies' freight services operational models and procurement strategies to identify areas for improvement and potential cost savings. Specialist consultants such as [GLG Insights](#) and [Guidepoint](#) may be engaged to assist with developing the strategy and identifying contract negotiation levers; although Procurement tends to rely on the expertise of the service providers and internal logistics teams.
- General market trends include large logistics companies acquiring small and specialist freight services providers, consolidation between specialist transportation providers and air freight carriers, new models disrupting the market, and increased direct to customer shipping using small parcel carriers.

Strategy Development and Execution

- Freight services strategies tend to be established at the global level, and are determined according to the company's business requirements and objectives, maturity in the use of freight services, and market trends.
- Procurement's role in the development of the freight services strategy includes applying the seven-step strategic sourcing model to define the strategy, leading the development of a global freight services strategy that accommodates regional and local requirements, and co-ordinating logistics procurement strategies on a regional and local basis.
- Procurement also partners with the stakeholders to develop and implement the strategy, facilitates the evaluation, selection and contracting of service providers, co-ordinates change management and communications between the stakeholders and service providers, and assists the stakeholders with managing risk, supplier relationships and supplier performance.
- Freight services are commonly being outsourced to a third-party or fourth-party logistics (3PL/4PL) company, in order to consolidate requirements with single service provider that manages logistics operations on behalf of the client company. Using 4PL providers is beneficial as they tend to be logistics and procurement consultancies, or logistics companies that have extended their capabilities to managing other logistic service providers at a high level. However, the 3PL model is often the preferred option because as well as the costs being lower than the 4PL model, it enables greater control and transparency of both the costs and the execution of the logistics strategy.
- Using freight forwarders that provide customs clearance services, or customs brokers that specialise in clearance, are solutions that are being used for ensuring that the requirements are being managed effectively. However, it may still be challenging to achieve 100% global coverage, due to inadequate customs clearance services in some regions and countries.

The UK leaving the European Union is significantly impacting the import and export of goods between the UK and other countries, particularly in terms of issues with customs clearance and goods being stockpiled in warehouses, resulting in delays and increased costs. Some companies have moved their legal entities and major distribution centres to EU countries, and are bypassing the UK to avoid potential issues.



COVID-19

- Changes to freight services strategies in response to the COVID-19 situation include:
 - Risk mitigation strategies being improved and service providers being required to develop and test business continuity plans
 - Contracts being reviewed to understand the accountability and liabilities of the company and its suppliers
 - Clauses regarding force majeure being included or reworded in contracts to cover future potential crises
 - IT solutions being necessary to increase visibility and control of freight shipments
 - Greater focus being placed on freight services providers being able to fulfil capacity demand
 - Existing suppliers being monitored for financial and operational risks, as well as reduced capabilities and capacity resulting from the pandemic
 - Alternative domestic freight transportation providers being identified for potential inclusion in future RFPs, as well as alternative transportation modes, routes and carriers, to broaden the options and avoid becoming too dependent on single service providers
 - Increased air freight capacity being sourced through third parties, and specific carriers being used that can guarantee the capacity to manage a certain amount of volume
 - Freight services providers with their own vehicles being sourced, that can fulfil transportation requirements when their subcontractors fail or are unable to perform.
- Some organisations have reduced their payment terms to assist small supplier companies to maintain their cash flow and remain in business during the pandemic; others have extended their payment terms to improve their own cash flow, even though this may create supply risk by impacting the suppliers' cash flow.

Contract Negotiation and Implementation

- Important criteria to address when negotiating freight services contracts include:
 - Service level agreements (SLAs) that include quality and capacity commitments from the service provider
 - Insurance coverage for freight, with liability for lost or damaged goods placed with the service provider
 - Chain of responsibility requirements
 - The security of goods in transit
 - The rates for different transportation modes and routes
 - Data security and transparency
 - Volume rebates or discounts, which may be tiered according to different levels of volume
 - Flexibility for accommodating variable requirements
 - The delivery of year-on-year cost savings by the service provider
 - Compliance with regulatory requirements and the organisation's policies regarding ethical practices and risk management, by the primary service provider and any subcontractors used to deliver the services
 - Business continuity plans and risk mitigation strategies.
- Fluctuating fuel prices may be managed by agreeing a basic fuel price with additional surcharges in line with the current market price of fuel, allowing rate card adjustments in line with the changes in the consumer price index (CPI), agreeing a tolerance margin for fuel price increases, and defining the fuel price index that will be used as the basis of the agreement to ensure that both parties are referring to the same source data.



Performance Management

- The most important key performance indicators (KPIs) for evaluating freight services are on-time and accurate delivery, invoice accuracy and timeliness, and goods not being damaged in transit. Other important KPIs include metrics regarding:
 - Service quality, efficiency and response times
 - Issue resolution processes and timescales
 - Data and reporting
 - Stakeholder/customer satisfaction and complaints
 - Compliance with regulatory, temperature control and documentation requirements
 - Safety standards and incidents
 - Cost reduction and optimisation
 - Sustainability, innovation and continuous improvement.
- Supplier performance against the SLAs and KPIs is being monitored using scorecards completed by the stakeholders, and discussed in regular meetings with the service providers, including quarterly business reviews (QBRs) and annual review meetings attended by Procurement, the key stakeholders and the service providers. Penalties may be applied for failure to comply with the contract and SLA, or poor performance against the KPIs.
- Freight services providers are audited for financial and contractual compliance, particularly regarding invoice accuracy, the allocation and classification of spend, and accessorial costs. The audits may be performed internally or by a third party, by reconciling freight services bills and invoices and identifying discrepancies.

Trends and Technology

- [Uber Freight](#) and [Amazon Freight](#) are providing increased capacity in the road transportation market at competitive prices; primarily in North America but the services are available in some European countries. Other freight services providers that use artificial intelligence (AI) have also entered the market in competition with Uber and Amazon.
- The challenges caused by the COVID-19 pandemic are expected to continue during 2021, particularly regarding port congestion and delays for sea freight, and limited capacity for air freight. The distribution of the COVID-19 vaccine is placing significant pressure on air freight carriers in terms of providing temperature-controlled transportation for the vaccine on a global basis, while still fulfilling the requirements of their regular customers.
- The application of advanced technological and digital solutions by companies may be limited to implementing or upgrading internal TMSs. This is because 3PL and 4PL companies are typically using the latest technology and providing customer interfaces, reducing the need for companies to invest in additional tools.
- The TMSs and supply chain management platforms that are being used to book and track freight shipments and obtain visibility of data include [Blue Yonder](#), [Infor Nexus](#), [JDA](#) and [MercuryGate](#). Blockchain technology is also being used to obtain visibility of shipments.
- Smart sensors are being used to obtain real-time data for items that require specific conditions, such as temperature control in storage and transit, to detect variations and take corrective action when necessary.
- Freight services providers and forwarders are using track and trace technology to locate goods in transit and arrival at their destination. This may be reinforced by the application of geofencing technology that uses global positioning systems (GPSs) and radio frequency identification (RFID).

Resource Centre Links

The following are links to the full meeting notes for each region:

- [Asia](#)
- [Australasia](#)
- [North America](#)
- [Western Europe](#).



Further Information

Global Digests provide valuable category and strategic insights to CASME members, as part of a much wider subscription service that is delivered to hundreds of corporate indirect procurement teams worldwide.

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Important

This document is a summary of the facilitated discussions between the delegates at various meetings held from September 2020 to December 2020. We recommend that any references, particularly to legislation, or recommendations contained in these notes are cross-checked by the reader in order to verify their accuracy prior to being acted upon. Any third-party organisations named in this document are not recommendations but are examples of companies mentioned during the meetings that might be considered when tendering for appropriate goods or services. These are not intended to form an exhaustive list and it is likely that other organisations not listed may also provide similar goods or services.

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