ISM Annual Indirect Procurement Conference

December 3, 2014
3:30 p.m. – 4:45 p.m.
The Future: Logistics Procurement

Cindie Blackmer, Intel, Manager Channel Products & Logistics Strategic Sourcing
Cindie.A.Blackmer@intel.com

Joel Greenberg, APL Logistics, Director of Global Accounts
Joel.Greenberg@apl.com

Dr. Arnie Maltz, ASU Associate Professor
W. P. Carey School of Business
Supply Chain Management
Arnie.Maltz@asu.edu

Co-Moderators

Dr. John Fowler, ASU SCM Department Chair & Motorola Professor
Co-Director, Network for Value Chain Excellence
W. P. Carey School of Business
John.Fowler@asu.edu

Eileen McCulloch, ASU, Operations Director
Network for Value Chain Excellence
Eileen.McCulloch@asu.edu

Network for Value Chain Excellence

W. P. CAREY
School of Business
ARIZONA STATE UNIVERSITY
Department of Supply Chain Management
Today’s Panel Discussion

- Interactive idea sharing
- Major trends and issues in logistics
- Preparing for change
The Future: Logistics Procurement

Definitions

Second-Party Logistics Provider (2PL): an asset-based carrier that owns the means of transportation. (Wikipedia)

Third-Party Logistics Provider (3PL): A firm which provides multiple logistics services for use by customers. Preferably, these services are integrated, or "bundled" together by the provider. These firms facilitate the movement of parts and materials from suppliers to manufacturers, and finished products from manufacturers to distributors and retailers. Among the services which they provide are transportation, warehousing, cross-docking, inventory management, packaging, and freight forwarding. (cscmp.org)

Fourth-Party Logistics (4PL): Differs from third party logistics in the following ways; 1) 4PL organization is often a separate entity established as a joint venture or long-term contract between a primary client and one or more partners; 2) 4PL organization acts as a single interface between the client and multiple logistics service providers; 3) All aspects (ideally) of the client’s supply chain are managed by the 4PL organization; and, 4) It is possible for a major third-party logistics provider to form a 4PL organization within its existing structure. The term was registered by Accenture as a trademark in 1996 and defined as "A supply chain integrator that assembles and manages the resources, capabilities, and technology of its own organization with those of complementary service providers to deliver a comprehensive supply chain solution.", but is no longer registered. (cscmp.org)

Freight Forwarder- an organization which provides logistics services as an intermediary between the shipper and the carrier, typically on international shipments. Freight forwarders provide the ability to respond quickly and efficiently to changing customer and consumer demands and international shipping (import/export) requirements. (cscmp.org)
Some Logistics Trends & Future State

1. Supply chain design
   - Near-shoring and insourcing
   - Location of production, warehouses, distribution centers
   - Increasing complexity
2. Emerging countries
3. Security
4. Automation increasing
5. Consolidation of 3PLs and trucking
6. Changing delivery modes: Uber like systems
7. Constraints and drivers
The Future: Logistics Procurement

Discussions: Take-aways

- Relationships: are you achieving the greatest value?
- Sustainability: are you sufficiently pro-active?
- Contracts: do you write savvy contracts?
- Contingency Planning: are you doing enough?
- Constraints and Their Drivers: do you really understand?
- Are you Maximizing Service Provider Value?
The Future: Logistics Procurement

Relationships for Best Value

• Include internal logistics when developing strategy and goals
• Better understand logistics provider needs
• Go out and talk to your customers
• Integrate more effectively with logistics providers by:
  - Aligning business objectives
  - Aligning roles and responsibilities
  - Integrating processes
  - Please see next slide for Intel’s model
• Understand why perceptions exist:

<table>
<thead>
<tr>
<th>Internal logistics perceives its own priorities</th>
<th>Internal logistics perceives procurement priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reliability/Cost</td>
<td>1. Product cost/price</td>
</tr>
<tr>
<td>2. Flexibility and Responsiveness</td>
<td>2. Reliability/assurance of supply</td>
</tr>
<tr>
<td></td>
<td>3. Contract/process</td>
</tr>
</tbody>
</table>
Intel: Collaborating with Business Partners for Best Transportation Value

**Network for Value Chain Excellence**

**Supplier Base**
Small stable supply base engaged in multiple segments.
One dominant “Go To” supplier
Limited niche & local suppliers.

**Supplier Development**
Validate supplier capability prior to bid.
Goal of 3 capable/suppliers per segment.

**Quick Transitions**
Goal of 4 week transitions on rapid bids.
Reinforces competitiveness by showing we can “move the business”.

**Supplier Management**
Global & regional supplier management with the Logistics Partners
SRC, performance management, cost, ESG, controls, QBR’s, MRM’s.

**Fast Bids**
Investments in bid process standardization & automation.
Fast bids enable move to lower price 1 year contracts

<table>
<thead>
<tr>
<th>Year</th>
<th>TPT (Days)</th>
<th># of Bids</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>15:3</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>88</td>
<td>6</td>
<td>“All Hands on Deck”</td>
</tr>
<tr>
<td>2010</td>
<td>64</td>
<td>5</td>
<td>Process Improvement</td>
</tr>
<tr>
<td>2011</td>
<td>88</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>44</td>
<td>11</td>
<td>Pricing file automation</td>
</tr>
<tr>
<td>2013</td>
<td>40</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

**Competitive negotiation**
Include only verified suppliers in negotiation
Leverage a range of negotiation options.
Focus on minimizing the money left on table.

**Fast Bids**
Investments in bid process standardization & automation.
Fast bids enable move to lower price 1 year contracts

**Supplier Development**
Validate supplier capability prior to bid.
Goal of 3 capable/suppliers per segment.

**Quick Transitions**
Goal of 4 week transitions on rapid bids.
Reinforces competitiveness by showing we can “move the business”.

**Supplier Management**
Global & regional supplier management with the Logistics Partners
SRC, performance management, cost, ESG, controls, QBR’s, MRM’s.
The Future: Logistics Procurement

Sustainability: means doing something

• It’s not enough to ask sustainability questions in an RFQ
• Use suppliers’ footprints to drive cost savings. Set and measure goals for them to reduce carbon footprint to decrease wait time
• Understand country and state regulations and incorporate into your supply chain design
• We need to push to include sustainability goals into contracts and bids
• Leverage government initiatives
• Leverage IoT technology for green initiatives
• Know the ROI for your company
The Future: Logistics Procurement

Contracts

- Add service specs
- Use the right performance based metrics
- Minimum quantity commitments - misperceived leverage
- Vested outsourcing: do you share values and goals?
- Performance based contracts include:
  - Soft vs. hard (i.e., credits vs. price)
  - Guaranties of service - i.e., transit time windows
Contingency Planning

- Emergency Operations Team/Center
  - Designated people/team to handle global emergencies
    - Multifunctional (Legal, Communications, Operations, Marketing, Production, etc.)
- Be pro-active to plan contingencies for:
  - Security threats-physical and internet
  - Facility fires
  - Natural disasters
  - Bio-medical (disease)
- Create, review, and revise alternative plans
The Future: Logistics Procurement

Constraints

- Understand global regulatory constraints and incorporate in supply chain design
- Plan for capacity constraints
  - Identify alternatives
  - Prepare for longer lead times
- Labor shortages and increasing salaries will increase costs
Maximize Value of Service Providers

- Understand differences between 3 and 4 PLs
- Recognize the myths
  - Volume drives price savings
  - You can get more than what you pay for
- It comes back to relationships that maximize value
  - Be honest
  - Be open
  - Form realistic expectations
  - Be pro-active