EXECUTIVE BRIEF

Transportation is the forgotten M&A supply chain synergy

GLOBAL FREIGHT MANAGEMENT

The active use of mergers and acquisitions (M&A) by equity investment firms to quickly transform the financial profiles of companies has dramatically increased the rate at which corporate DNA evolves. Still, it is common to find global enterprises still operating as a collection of business silos even decades after M&A events. Few operational synergies may be realized in the aftermath of business buy-ups, beyond the consolidation of HR, financial activities, and other back-office staff to eliminate redundancies.

So with that in mind, why aren't more companies leveraging the tremendous operational cost savings available from integrated freight management following mergers or acquisitions?

While many synergies on which merger and acquisition activities are justified to boards and shareholders fall short of expectations, global transportation synergies are now much easier to realize across complex enterprises, especially those that have grown from M&A initiatives.

Supply chain synergies

For manufacturing organizations, the initial campaigns to reduce costs and grow revenue following an acquisition can run into a wall when it comes to the supply chain. The imperatives for successful supply chain integrations involve preserving strategic vendors and preventing disruptions for the existing base of customers. Unless manufacturing models and various industry factors are extremely well-aligned, pursuing both imperatives can lead to a cursory assessment. The existing relationships and dependencies in each party's supply chain are too complex to risk major changes without a period of extensive analysis and planning.

Ten years later, that extensive analysis and planning is often yet to be completed.

Supply chain synergies aren't limited to consolidating suppliers, leveraging new purchasing volumes, or rationalizing SKUs, however. The millions of dollars of direct and indirect freight spend to move goods and materials across the global supply chain represents a cost-reduction and efficiency improvement opportunity that usually goes untapped for years. The primary reason this synergy area is overlooked is not necessarily the complexity of execution, but the lack of strategic visibility that is available for transportation activities across the enterprise in general.

Consider the basic economies of scale that are available when transportation sourcing needs are addressed at a global, pan-divisional level, especially for inbound supply chains. Aggregating a view of freight flows around the globe helps the enterprise negotiate ocean and air cargo contracts based on larger volumes and sizable freight allocations to preferred carriers. Rationalizing the number of third-party logistics service providers or freight forwarders internationally has a similar effect, increasing freight volumes and lane densities with the remaining partners, which opens new cost reduction opportunities.

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Identifying shipping lane overlaps can also highlight new consolidation or pool point opportunities to improve container utilization. Shifting a higher proportion of goods to full container loads is much more economical than supporting a high volume of LCL shipments at higher rates.

Without any changes to supplier networks or product SKUs, many diverse items, from source materials to finished goods, can be combined in container shipments to achieve greater transportation efficiencies and cost reductions.

The need for transportation visibility

The same freight aggregation benefits apply to trucking contracts for surface transport needs. In North America, truckload carriers are very responsive to opportunities for chaining loads in sequence to reduce empty or unloaded miles traveled. Combining all transport requirements across separate manufacturing divisions helps carriers spot backhaul opportunities in the total network that can keep trailers full and allow them to offer lower rates for primary lanes or head hauls.

The classic modal shifts from smaller, higher-priced shipments moving by parcel or LTL to larger, more economical shipments via full truckload or even rail intermodal are something that any conventional TMS technology can accomplish for all the freight leaving a single plant or warehouse. Imagine the savings and efficiency opportunities that open up, however, when transportation planning moves beyond the constraints of local shipping optimization to encompass a total view of the myriad freight flows supporting enterprise activities, from inbound materials and component sourcing to outbound finished goods shipments.

In industrial process engineering terms, localized transportation optimization can never produce results as beneficial as those based on global optimization efforts. This is simply because local transportation management systems have no visibility across the enterprise to more options.

This larger-scale transportation oversight is the basis for many value propositions from third-party logistics providers offering transportation management as an outsourced or managed activity for complex manufacturing organizations, across food and beverage, CPG and automotive industries, and assorted B2B verticals. In addition to aggregating freight flows across the customer's geographic and divisional silos to identify savings opportunities, large 3PLs promise to knit those freight flows in with other customers they serve in order to drive further freight cost reductions and new service opportunities. In practice, this blending of freight is still not as widespread as it could be because of the reluctance of many shippers to share transportation resources, benefits, and risks with other companies.

Beyond outsourced logistics

The rise of third-party logistics services in North America has helped improve the efficiency of a highly fragmented transportation marketplace and the many small and mid-size carriers operating in it. This successful transportation intermediary model, driven by technology platforms that improve shipment visibility as well as transactional velocity, is now spreading to Europe. At the global logistics level, the complexities of cross-border transportation, ocean shipping, and multi-modal freight transfers are largely the domain of a handful of dominant forwarding and 3PL giants.

In tandem with 3PL market growth, many larger shippers have now had years of service cycles working with third-party service providers, building internal logistics and global transportation expertise in the process. There is growing evidence that these experienced transportation organizations are now "re-shoring" their own transportation management activities, bringing major freight procurement processes in-house to increase influence with their strategic carrier partners, while still executing daily transportation activities under those contracts through forwarders or 3PLs.

Enterprise visibility to existing transportation processes is usually missing.

These mature transportation groups at larger shippers are also using a new class of transportation network technology as a control layer for visibility, to uncouple their strategic business processes from dependency on any particular 3PL or carrier technology platform. This approach also retains their ownership of, and ready access to, performance data regarding carriers and multiple 3PL activities. The valuable business intelligence this represents helps the enterprise improve future procurement processes and negotiations, mitigate risk in their carrier selections, and objectively manage their global transportation performance and relationships.

Network transportation management

Global transportation synergies are now much easier to realize across complex enterprises, especially those that have grown from mergers and acquisitions. This is due to the availability of cloud-based supply chain software that can readily deliver visibility across business silos. Supply chains themselves are multi-enterprise systems, built on a network of suppliers and service providers spanning broad geographies and market or industry verticals. The rise of the network operating model in advanced supply chain practice addresses the need for multi-enterprise collaboration to drive better performance. The cloud is ideally prepared to host this network of collaborative trading partners around the world.

The collaborative network platform is also an ideal solution to drive transportation savings and efficiencies for global companies still operating as many, semi-autonomous business operations because of specialized supply chain or market needs.

With cloud networks explicitly designed for connectivity with multiple external systems and interoperability to a wide range of on-premise ERP systems, the elusive goal of end-to-end supply chain visibility is finally within reach. When the cloud network already hosts a critical density of global shippers and the community of leading ocean, air, and truck carriers that service them, the path to ROI from investing in transportation management applications designed for that collaborative environment can be very short.

Connect and control

Significant transportation synergies are frequently overlooked after M&A events because so many other issues clamor for attention, and enterprise visibility to existing transportation processes is usually missing. For those companies intent on driving new synergy across very segmented business operations, a network transportation management solution should be part of their strategic supply chain technology platform. For firms that see M&A competency as a cornerstone of their business success, a network solution emphasizing supply chain visibility and connectivity, especially for transportation, is essential to the value creation toolkit.

With networked transportation management, gaining supply chain synergies is not dependent on ripping-and-replacing existing TMS software in place for domestic shipping needs. By connecting these disparate systems under a cloud control layer, the networked approach generates global transportation visibility, coupled with powerful transportation planning, execution, and analytics capabilities. This is synergy at work, combining insight with control to generate an entirely new level of supply chain performance and enterprise profitability improvement.

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