Beyond the Lowest Freight Rate: How Digital Procurement Can Transform Logistics Competition

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Introduction

Traditionally, logistics procurement has focused on long standing relationships with carriers, negotiated contracts, and relied on limited visibility to transport capacity to make procurement decisions. While this gives an edge with known quantities, it restricts an organization from assessing other service providers and comparing commercial terms. The Indian manufacturing and distribution landscape is evolving and so must transportation procurement. As it stands, transport procurement is largely a relationship-based business, and the time has come to supplement it with actionable information and engage more broadly in the market. The drive for price should be balanced by other considerations such as service and reliability.

Why traditional procurement needs to evolve

Transportation procurement deals with much more than haulage costs. Reliability of deliveries, variability of transit times, handling of cargo and insurance arrangements all influence inventory planning and promises made to the end customer.

For example, a producer may wish to transport regular shipments between two industrial hubs. The winning bid may involve limited delivery timeframe, extra charges for handling or no liability in case of cargo damage. Another supplier may offer a higher price but ensure more reliable delivery, which makes it hard to use price basis for buying decisions without comparable information. Enabling digital procurement would allow for a comprehensive view of the whole transaction.

Finally, going digital could attract participants who previously were unable to join the market. It is possible that small regional carriers have all capabilities to compete in the market but are unable to gain business beyond their existing contacts. In this respect, better digital discovery could enable them to get access to new loads. However, market platforms must not become the tools for further inequality on the market through hidden ranking, high entry fees or biased conditions for some participants.

Three priorities for more effective freight procurement

- **Analyse total service costs:** Freight quotes need to make specific mention of transport charges, costs that might be charged in addition to the delivery price, expectations for the delivery period and terms of insurance. The decision about which procurement route to go should be influenced by the amount of commercial exposure.

- **Promote larger number of suppliers:** Online tendering system allows to remove barriers due to distance or bureaucracy and gives the chance to smaller companies to be part of the bidding process.

• **Impose accountability on procurement:** Use of objective assessment criteria, reliable payment systems and proven commitment to perform the service improves trust of the parties involved.

Digital bidding is not a race to the bottom

The price discovery process should not transform into a process that promotes inadequately low quotations to the detriment of the quality of services. The transportation service providers have legitimate costs of running the business, including vehicle and fuel costs, maintenance, labor, and compliance with regulations. If the pressure put on rates is too strong, service providers may be forced to either change their commitments regarding the services or charge unexpected prices. Thus, electronic procurement systems should ensure that the evaluation process is balanced through the inclusion of service-related information, transparency of business conditions, and reasonable accountability.

Conclusion

The future of logistics procurement is in promoting informed competition instead of only going for the digitalization of the traditional bargaining process. A more extensive supplier discovery, transparent bidding and reliable service information can enable firms to make better trading decisions and open the path for the smaller logistics companies as well. The Indian logistics system should strive for a marketplace where the competitive rates go along with reliability, fairness and accountability of operations. Ultimately, successful improvement in procurement will be assessed on the basis of the value created during shipment journey rather than on the number of bids received.