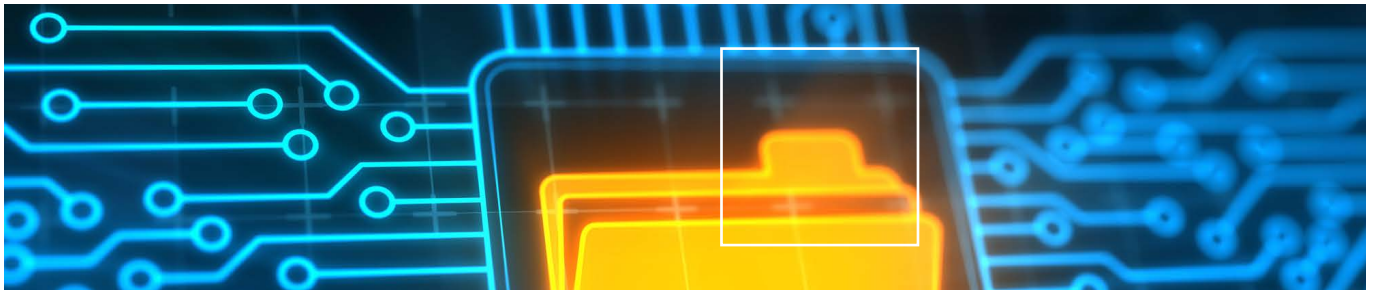


Is tender excellence on your radar?

How transportation & logistics companies can achieve the next level



Tender management remains *one of the most business-critical jobs* for logistics companies. A significant share of revenue is generated from bids, with the aggregated value of tenders amounting up to billions of euros p.a. for large organizations. As a result, tender management is the arena in which the main battle for future revenue is fought. Yet, it is wrong to consider it purely a function to manage the top line. It is a strategic game that, if played well, ensures critical mass is generated, flows are optimized and procurement power is strengthened. Thus, it lays the foundation to handle future business more efficiently – *at higher profits*.

In a bidding environment that is characterized by high transparency, fierce competition and strict rules, service offerings among providers are commoditized. The whole negotiation process is reduced to one variable - the price - which is not very attractive to most logistics companies. Hence, *tender management is seen as a necessary evil, rather than an opportunity for future excellence*. This is also reflected in the way it is set up and executed in many logistics companies: non-harmonized processes, high manual efforts, endless escalations and limited technology application are still the status quo.

Accepting the fact that large bids are indeed a commodity-purchasing exercise for clients does not mean company profits have to suffer in the long run. However, neglecting the strategic importance of tender management and not utilizing it properly does.

Symptoms: what is “bad” tender management?

From previous project experience, Arthur D. Little has identified the following *tender management pain points*, frequently highlighted by senior executives in the industry:

- Processes are error-prone, with *“too many things going wrong,”* which leads to lost sales or diminishing profits.
- Average hit rates are as low as 10 percent, with *“not enough value being captured from the efforts invested.”*

- There is low transparency on what is going on and where attention is needed, leading to business losses.
- Processes are considered too bureaucratic in some cases, in which *“more focus is put on correct administration rather than on actually winning business.”*
- In other cases, processes are not well structured at all, resulting in unclear responsibilities and lots of back-and-forth between internal stakeholders.
- There is often no continuous improvement: *“The same hassles come up again and again.”*

Diagnosis: what is driving “bad” tender management?

We have identified 10 pain points behind these symptoms:

- 1 **No end-to-end view:** companies lack fully defined processes and governance that cover all steps and are integrated well with preceding and subsequent processes.
- 2 **No smart exceptions in the process:** Deviations from the norm are not allowed. There is no “expedited track” to enable special treatment of special opportunities.
- 3 **No defined learning element:** Companies often do not have KPI systems and formal review processes established to measure bid management effectively and trigger change.

- 4 **Limited tender planning:** Often, companies lack effective planning capacity to scan the market, manage the bid pipeline, create visibility and plan resources accordingly.
- 5 **No clear strategy:** Many companies do not have clear visions and strategies on what their tender management should be and what types of opportunities to focus on.
- 6 **Limited use of smart technology:** Tender processes are still widely based on Excel and Outlook. For example, pricing sheets are filled manually, duplicated multiple times and sent around the world to collect data from stakeholders.
- 7 **Low internal visibility:** Lack in communication between stakeholders and limited transparency of central tender teams on costs, profits and market rate levels.
- 8 **Dominant company politics:** Different stakeholders follow their own agendas to protect individual P&Ls. Tender teams may not be allowed to push through decisions against individuals for the overall company's benefit.
- 9 **No suitable team set-ups:** Often, companies select the "wrong" employees for the job and/or train their staff insufficiently. Tender management requires specific skills and competencies that are often neglected.
- 10 **Limited entrepreneurship:** Tender teams are focused on the data at hand, and are afraid to make bold (and well-documented) assumptions to generate winning offers. Innovative problem solving is a rarity.

Apart from the aforementioned drivers, tender management is exacerbated by additional complexities introduced by the clients. Examples of these complexities may be, e.g., poor data quality, imprecise requirements, tight deadlines and multi-round bidding cycles.

Cure: What can be done about it?

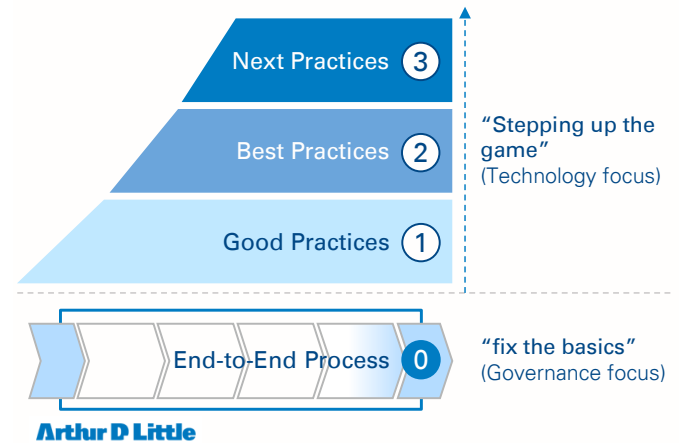
Arthur D. Little's "3+1 stage model" helps logistics companies "fix their basics" and to bring tender management to the next level. Our framework addresses the 10 weak points from above and aims to unlock additional value from the process by positioning companies better than the competition. The illustration below shows the model and its key components.

As a first step, companies need to design and implement *well-conceived processes and governance frameworks* to "fix the basics" (0) of their bid management environments and create foundations for additional value creation.

As a second step, companies may decide on their *levels of technological support and maturity* along all process steps and dimensions, such as tender planning and pricing. Depending

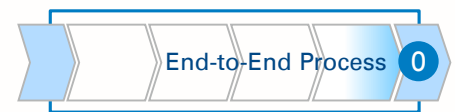
on how far companies want to push it, they can deploy "good," "best" or "next" (1-3) practices.

ADL 3+1 stage model for excellence in freight tender management



Operationalization: What does it mean specifically?

Fix the basics

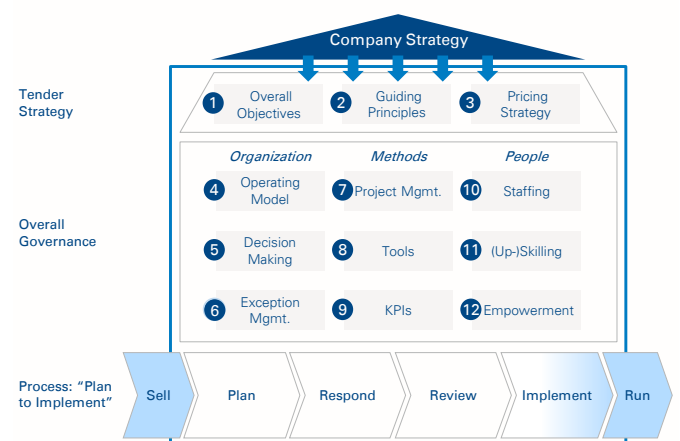


A clear *tender strategy* is the starting point for success in bid management. A good strategy defines:

- The **overall objectives** (e.g., tender-revenue targets)
- Clear **guiding principles** (e.g., minimum and maximum profit margins for different client segments)
- A **comprehensive pricing strategy** (e.g., bottom-up or top-down pricing approaches)

Lack of strategic clarity will lead to missing direction and will limit success probability in day-to-day operations.

Process & governance framework (simplified)



Derived from the tender strategy, *comprehensive governance* with clear rules and guidelines needs to be established. This includes decisions regarding:

- The right **form of organization** (e.g., how to structure teams and how to split responsibilities)
- The **tools and mechanisms deployed** (e.g., special decision-making boards or formats to be used)
- A comprehensive **KPI metric** (e.g., to measure hit- and error-rates)

The foundation of it all, though, is a well-structured *end-to-end process* that defines all elements, from planning over responding up to review. The tender process needs to create full visibility on incoming tenders, define how to register and prepare, analyze and select, as well as price and post-review them. It also has to clearly define interfaces to the sales and implementation processes to avoid breakage and friction loss.

Pain points addressed (examples):

- 1 End-to-end view of tender management provided
- 5 Clear strategy can be defined

Good Practices 1

Good practices enable *virtualization of collaboration* through simple, cloud-based workflow management systems. They also provide *light decision support and automation* via IT process integration and expert systems, e.g., for resource planning or pricing.



Use-case example: Efficient workflow management systems

End-to-end virtual processes and central data storage via shared workspace with effective user-rights administration.

Transformatory aspect:

- **Faster tender work and automated event triggers**
- **Easy collaboration and delegation** in dispersed teams
- **Effective documentation** of inputs and decisions
- Simple management of tender **rules and constraints**
- **Avoidance of copy/paste errors**

Pain points addressed (examples):

- 2 Process exceptions can be mapped in the workflow easily
- 3 “Post-mortem” analysis based on central data pools
- 7 Online transparency for everyone (who should have it)

Best Practices 2

Best practices enable *semi-automation of the tender process*. They combine smart-data approaches with “early-stage” but proven automation solutions such as robotic process automation (RPA), e.g., for tender planning or pricing.



Use-case example: Automated tender planning with RPA

Creation of a holistic data pool via RPA (e.g., containing historic tender data and logically derived new data sets), with (semi-) automated planning and management of the tender pipeline, as well as resource allocation on that basis.

Transformatory aspect:

- **Fully complete and dynamic tender pipeline**
- Automated and efficient **tender-resource allocation** and immediate **triggering of pre-analyses and -tendering**
- **Final review and corrections** left to human experts, allowing for more focus
- **Real-time updates** for all stakeholders

Pain points addressed (examples):

- 4 Efficient, constantly updated tender planning
- 6 Deployment of current state-of-the-art technology
- 7 Automated, regular communication to team

Next Practices 3

Next practices enable *(near-) full automation* of the tender process and *highly effective decision-making*. They use smart data approaches, efficient interfaces to external data pools and new technology paradigms such as blockchain as fundament. On top comes intelligent and automated decision-making based on artificial intelligence (AI) in a more explorative stage – as used by cutting-edge digital logistics start-ups, e.g., for push pricing.



Use-case example: Artificial intelligence-based push pricing

Pricing is automated and based on intelligent historic data analysis and clever prognoses (push) instead of pure data collection from third parties (pull).

Transformatory aspect:

- No time-consuming **back-and-forth** with third parties
- **Competitive, historic data-, market- or competition-based pricing** instead of “black-box cost plus”
- Always ensures **full-scope quotations** towards clients
- **Time freed up** for detailed checks and fine-tuning or creation of special solutions by senior experts
- Continuously **evolving (learning) system**
- Vision: logistics companies (or shippers!) automatically populate tender sheets online **at the push of a button**

Pain points addressed (examples):

- 3 System learns actively and evolves constantly
- 8 AI acts within boundaries given, but avoids politics
- 9 Human limitations are compensated by AI co-worker
- 10 AI develops optimized solutions based on generic rules

Moving ahead: Building tender management excellence

While digital platforms and total connectivity are on the rise, tender management is stuck in the “old world”. It still takes months to manage a large-scale tender from end to end. And yet, final responses are often unsatisfactory for both sides – shippers and logistics companies – as they still contain calculation errors and sub-optimal solutions.

Companies that succeed in turning their tender management around can move ahead of the pack and prepare their core businesses for the digital age. The first step to improvement is a mind-set change. It is time for logistics companies to rethink tender management and consider it an opportunity for future excellence. As personal communication (the “human touch”) is losing importance, efficient top-down client management is more important than ever – at least for routine business activities, with tender management at the forefront.

Being smarter in managing bids means higher success probability and better margins in a discipline that accounts for a large revenue share. It is a challenge that can be mastered, though. The methods and the (disruptive) technological building blocks are there to “fix the basics” and build up tender management that meets the state of the art in 2018 – or even reaches the next level.

With its experience and footprint in the logistics industry, including tender management, as well as its strong focus on technology and transformation, Arthur D. Little can support you on your path to the next level.

Is tender excellence on your radar? Is the path forward clear to you? Do you know your next steps? If not, do not hesitate to contact our experts. Together we can develop and implement a comprehensive roadmap to solve your tender hassles... and prepare your business for the digital age.

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Arthur D. Little

Arthur D. Little has been at the forefront of innovation since 1886. We are an acknowledged thought leader in linking strategy, innovation and transformation in technology-intensive and converging industries. We navigate our clients through changing business ecosystems to uncover new growth opportunities. We enable our clients to build innovation capabilities and transform their organizations.

Our consultants have strong practical industry experience combined with excellent knowledge of key trends and dynamics. Arthur D. Little is present in the most important business centers around the world. We are proud to serve most of the Fortune 1000 companies, in addition to other leading firms and public sector organizations.

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