



INSIDE SUPPLY MANAGEMENT

Features

Getting the Most From Optimization

Author(s):

Mary Siegfried

Mary Siegfried is a freelance writer for *Inside Supply Management*®.

April 2009, *Inside Supply Management*® Vol. 20, No. 4, page 32

The U.S. Postal Service takes optimization to the next level, creating a powerful tool that helps supply management save money and work smarter.

By fully leveraging the capabilities of optimization (to best take advantage of systems, data and resources), the United States Postal Service's supply management organization has a "super-charged power tool" that has resulted in enhanced collaboration with its supply base, better service to its internal business partners and savings of more than \$57 million over three years. In keeping with its three-year strategic plan, which identifies technology as a critical driver of efficiency and effectiveness in supply management, the organization has taken its optimization tool to a new level by using it in many different spend categories and creating a flexible bidding environment with suppliers.

The Postal Service's use of optimization-enabled sourcing has been awarded the ISM R. Gene Richter Award for Leadership and Innovation in Supply Management in the Technology category. Susan M. Brownell, vice president, supply management for the Postal Service says her organization first implemented optimization in 2005, primarily for transportation sourcing. When supply management saw the need for a tool that "could perform more robust analyses of complex requirements and allow more collaboration with suppliers," Brownell says it decided to fully leverage its existing optimization tool.

While optimization itself is not new, Brownell says the Postal Service's decision to expand its use outside of the transportation spend category has resulted in greater flexibility for its suppliers and an annual cost reduction of \$5.2 million per sourcing event. "It gives suppliers flexibility in submitting their bids and provides them an opportunity to give proposals that really hit their sweet spot," she explains. Today, the organization uses optimization for spend categories such as credit card services, national banking services, mail transport equipment and spare parts.

Integration and Training

To integrate the tool into its strategic sourcing process, the organization provides ongoing training for its staff and uses a Web site on the Postal Service's intranet with information and resources about optimization. The site describes optimization and explains how it differs from reverse auctions. The optimization Web site includes information such as a "Buyer's Guide" to optimization, training schedules, case studies and sample optimization program plans.

Another key step in the integration process is training suppliers. Brian McKain, purchasing and supply management specialist, says general presentations are offered to suppliers about what the tool is and what the Postal Service is trying to accomplish. He says all training is "handled in an open environment to make sure all suppliers are comfortable with the tool beforehand." Then, before the actual sourcing event, suppliers are provided a link to the bidding site so they have a chance to navigate through it and register before the actual bidding opens. A training video within the optimization tool is also available to suppliers that have been invited to and registered for the optimization event.

Understanding the Cost Impact of Sourcing Decisions

Sourcing events at the Postal Service can be very complex, with the average event involving 715 line items, 23 suppliers and \$128 million in spend. Optimization-enabled sourcing technology allows suppliers the flexibility to choose items from the total solicitation package on which to bid, create their own bundles and offer conditional discounts.

ISM - Publications - Inside Supply Management - Getting the Most From Optimization

One benefit of the flexible tool is that niche suppliers that have limited capacity or that are not interested in venturing into other areas of the U.S. can now compete with the larger, national suppliers in a level environment, McKain explains. "Without this tool, that would be more difficult."

The tool also helps the supply management organization determine the actual cost of purchasing decisions. For example, a business partner might seek a two-year contract with a supplier, says Greg Bayne, purchasing and supply management specialist. By using the flexibility of the optimization tool, suppliers can submit bids for a two-, four- or six-year contract, and "we can see what is most advantageous for the Postal Service," he explains.

Internal business partners can better understand the cost impact of decisions, Bayne says, because the supply management organization can examine and evaluate the bids in "so many different ways."

To further assist with the overall integration of the tool, the Supply Chain Management Strategies team oversees all optimization events and provides strategic support to all phases of the sourcing process.

Saving \$70 Million in a Single Contract

The use of optimization in 2007 for its terminal handling services (THS) is an example of how the "power tool" benefits the Postal Service, Brownell says. THS is a material handling contract used to support the Postal Service's air and ground workers. The number of THS sites available during the strategic sourcing event was 65, and a total of 14 prequalified suppliers participated.

Brownell says the Postal Service sought to optimize the THS network by allowing suppliers to determine and propose their own site bundle, allowing them to bid on individual sites and any combination of bundled sites based on their individual strengths. After two rounds of bidding, the supply management staff "created more than 100 'what-if' scenarios to analyze the potential awards and create business rules and constraints on virtually every bid attribute and element."

Brownell says the final contract award resulted in a total savings of \$70 million or 10.7 percent of spend, compared to the previous price paid.

Future Use of the Tool

The organization reports that the total annual cost reduction from using optimization-enabled sourcing technology over the past three years is \$57 million. The tool also has reduced sourcing lead times because supply management can perform optimization analysis in minutes, reducing the evaluation process from weeks to days.

Doug Glair, manager, supply chain management strategies, says the organization plans to further "integrate and institutionalize" the optimization technology into its strategic sourcing process. As the organization continues to evolve technologically, it plans to combine optimization, reverse auctions and its regular solicitation capabilities into one tool, he says. "By combining these technologies into one tool, we can lower the cost of supporting the technology, leverage the knowledge that we have on staff and go fully electronic for all our solicitations," Glair says.

To learn more about how the U.S. Postal Service implemented its optimization tool, trained its suppliers and institutionalized its use, plan on attending a Conference workshop session on Tuesday, May 5, 2009 at the 94th Annual ISM International Supply Management Conference and Educational Exhibit in Charlotte, North Carolina.