

Real ROI - What OTM Has Brought to an Industry-Leading Manufacturing Company

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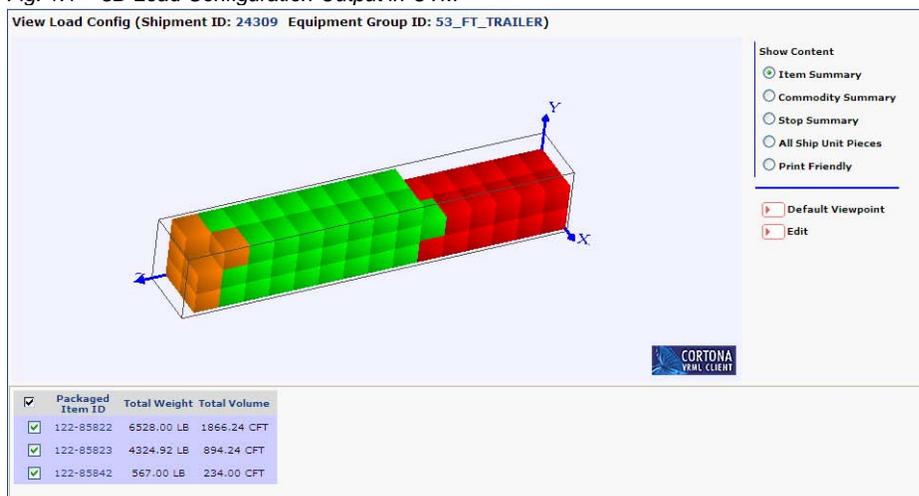
Lucidity Consulting Group

Doskocil Manufacturing Company (aka Petmate), one of the nation's leading manufacturers of pet products, recently partnered with Lucidity Consulting Group to implement Oracle Transportation Management. As Doskocil has grown, so has the price of fuel and the overall cost and complexity for shipping freight. Freight spending had become one of the last frontiers in their business that had not been addressed with an enterprise software solution and could experience a significant impact in cost savings. Doskocil went live with OTM Planning, Optimization, and Execution in Feb. of 07 and with Freight Settlement in Oct. of 07. Since being one of the first to implement OTM since its acquisition by Oracle, Doskocil has experienced significant cost savings and efficiencies with a product that provides real, tangible ROI in a short period of time.

Consolidation

The first and foremost concern Doskocil had with implementing OTM, or any transportation management system for that matter, was knowing if it would be able to configure loads in order to accurately identify and maximize equipment utilization. One of Doskocil's primary objectives for implementing OTM was to reduce freight costs by consolidating smaller LTL shipments into larger multi-stop truckload (TL) shipments. Without being able to accurately palletize Doskocil's outbound freight, OTM would not be able to accurately identify opportunities to consolidate smaller direct shipments into larger (more cost effective) multi-stop shipments. This aspect of our implementation was also a concern because Doskocil shipped unorthodox shaped freight such as igloo shaped doghouses that could not have other pallets stacked on top of them. Doskocil ships such a wide variety of case/pallet sizes with varying stackable vs. non-stackable attributes, it was obvious that this was going to be a significant hurdle to overcome. However, OTM v5.5 was the first release to unveil new load configuration functionality to address those exact concerns. Oracle and Lucidity worked together to develop a solution that would utilize OTM's load configuration functionality to its fullest and as a result was able to achieve one of Doskocil's primary objectives of load consolidation. OTM will now receive freight demand from Oracle Shipping and accurately build full pallets based on item attributes such as item/case dimensions, weight, volume, stackability, qty per layer and number of layers as well as build mixed (i.e. "rainbow") pallets for mixed freight on an individual pallet.

Fig. 1.1 – 3D Load Configuration Output in OTM



As a result, loads can be accurately estimated and consolidated resulting in less LTL shipments and higher volumes of more cost effective multi-stop truckload shipments. LTL shipments have been reduced by 10% and those loads have been distributed across truckload (multi-stop) and rail shipments. Dorskocil is the first customer to have implemented on gone live using OTM's load configuration functionality.

Visibility

Prior to implementing OTM, Dorskocil had very little insight into what their freight expenditures were and where their money was going. They used a 3rd party freight auditor who would receive carrier invoices, audit and pay them. Once a week they would receive a summary report from that 3rd party firm but there was no way for them to tie those payments back to their shipments in Oracle. In addition, the information they did receive just provided summary information such as the total cost of the shipment. Now with OTM, Dorskocil has detailed information at the shipment level that is broken down to as granular a level as they want. For example, they now have reporting that shows mileage, cost per mile, base cost, fuel surcharges, and accessorial charges at the shipment level.

Fig. 2.1 – Dorskocil report showing detailed shipment information

Date Shipped	MS SQ	Delivery	Trip	Carrier	Mode	Customer	Final Destination	Miles	Cost/Mile	Line Haul	Fuel	Stp Off	Other Fees	Total Frt Cost	Invoice Number	Invoice Amount	Frt/ % Invoice
10/01/07		893392346	412559	DART/FLEETL Rail		ORCHARD SU	TRACY,CA,USA	0.00	0.00	1,566.00	328.86	0	0.00	1,894.86	1457127	7,856.64	24.12
10/01/07		893396621	415480	DICK LAVY/L TL		MID-STATES	EVANSVILLE,IN,US	744.10	0.88	654.81	275.32	0	0.00	930.13	1457131	6,468.00	14.38
10/01/07		893396644	415501	SUMMIT TRAN TL		MID-STATES	PLAINVIEW,TX,USA	335.30	2.09	700.00	124.06	0	0.00	824.06	1456763	13,170.74	6.26
10/01/07		893396639	415511	Direct Tran TL		PETSMART	RENO,NV,USA	1,680.50	1.14	1,915.77	621.78	0	0.00	2,537.55	1457180	9,185.40	27.63
10/01/07		893396720	415802	DICK LAVY/L TL		PETSMART	GROVEPORT,OH,USA	1,054.60	0.88	928.05	390.20	0	0.00	1,318.25	1457124	18,685.78	7.05
10/01/07	MS	893396627 893396633	416741	SUMMIT TRAN TL		BRADLEY CA PETSMART	HAZELTON,PA,USA HAGERSTOWN,MD,US	1,480.50	1.25	1,850.63	547.79	50	0.00	2,448.42	1457183 1457182	9,953.51 8,530.64	13.25
10/01/07	MS	893396701 893396708 893396735	416744	SUMMIT TRAN TL		MID-STATES MID-STATES BI-MART CO	GREAT FALL,MT,US GREAT FALL,MT,US EUGENE,OR,USA	2,375.90	1.34	3,183.71	879.08	125	0.00	4,187.79	1456903 1456904 1456905	5,234.67 2,990.40 5,936.91	29.57
10/01/07		893396718 893396719	416798	DICK LAVY/L TL		PETSMART PETSMART	GROVEPORT,OH,USA GROVEPORT,OH,USA	1,054.60	0.88	928.05	390.20	0	0.00	1,318.25	1457123 1457121	6,973.66 7,605.12	9.04
10/01/07		893396660 893396663	416800	DICK LAVY/L TL		PETSMART PETSMART	OTTAWA,IL,USA OTTAWA,IL,USA	889.20	0.88	782.50	329.00	0	0.00	1,111.50	1457652 1457651	7,886.60 6,657.50	7.64
10/01/07		893396624	416864	ROADRUNNER LTL		UNITED HAR	MILBANK,SD,USA	0.00	0.00	57.29	8.88	0	0.00	66.17	1457227	214.65	30.83
10/02/07	MS	893395775 893395778	414971	BEAR TRANS TL		ACE HARDWA LOWES INC.	MIAMI,FL,USA MOUNT VERN,TX,US	1,362.60	1.35	1,839.51	449.66	50	0.00	2,339.17	1457412 1457414	11,868.43 5,104.00	13.78
10/02/07		893396675	415481	SUNTECK TL		PETSMART	NEWMAN,GA,USA	787.40	0.98	771.65	291.34	0	0.00	1,062.99	1457459	17,210.96	6.18
10/02/07		893396743	415810	Direct Tran TL		MID-STATES	MATTOON,IL,USA	782.60	0.88	688.69	289.56	0	0.00	978.25	1457279	9,689.52	10.10

The information that makes up the total freight cost for each shipment is compared to the invoice dollars being shipped to show freight as a percentage of sales for each shipment. This was also the primary metric for measuring planning performance prior to implementing OTM but Dorskocil could only view this at aggregate (weekly/monthly) levels and having the ability to see this for each shipment has proven to be extremely valuable. Prior to implementing OTM the average freight percentage hovered around 12% and since going live the average freight percentage has dropped to 10.5% representing a 12% reduction. This added visibility into detailed freight costs as a percentage of sales has helped Dorskocil to take several measures such as reconfiguring the packaging on certain items so that they can be stacked, renegotiating order minimums with certain customers in order for them to receive prepaid freight, identify and renegotiate rates to certain geographies that were now visibly high cost lanes, and proactively addressing shipments with high freight percentages prior to execution. Another advantage to having detailed cost information is the ability to use that data to provide accurate freight accruals which was difficult to do before and was never accurate. Freight accruals used to largely be guess work but now

those accruals are done with the confidence of knowing that the information OTM is providing is accurate to the cent and mile.

Process Improvement and Resource Utilization

When considering various sources of ROI for implementing new software, reducing headcount is often something that companies look for in order to reduce cost and derive value out of the software. The idea being that now the same process should be much more automated and efficient and take less people to manage. Reducing headcount was not necessarily one of Dorskocil's goals but they wanted to be able to further maximize their current resources to be more effective than what they were prior to implementing OTM. The old planning process prior to implementing OTM was extremely manual and was a full time job for 2 people. For example, the routing process was completely manual and involved the planners identifying the destination locations for each order and either knowing or looking up the cheapest carrier for that lane. They were sometimes able to recognize opportunities for creating multi-stop truckload shipments but it was still dependent on the user to be able to manually determine the amount of space the pallets were taking up in the truck and create the shipments. Once routing was complete, they would spend the rest of the day (4+ hours) creating load tender spreadsheets to send to the carrier and then having to manually manage the acceptance or rejection of those tenders via email or phone calls. Keep in mind that this entire process was done with only the knowledge that this carrier had a lower rate per mile than the next carrier. No information on mileage, fuel rates, base costs, and accessorial charges was ever available during the planning process w/o the planners manually creating these calculations which was not feasible.

After implementing OTM, the process is now managed by one planner in one location and is completed in much less time. On average, a bulk plan of 150 orders takes approximately 20 minutes to complete. The configurations that Lucidity put in place are what dictate the bulk plan results and this is where the software does its optimization which consists of automated rating and routing, least cost carrier selection, consolidation, and scheduling among other things. The planner then reviews the results of the bulk plan via the shipment manager and has the opportunity to manipulate shipments if need be. Another major difference in the new process with OTM is that all tendering is done at the click of a button. Once the shipment is ready for execution, the planner only has to select the shipment(s) that they wish to tender and select the tender action. At that point an email is automatically sent to the carrier with a link they can click on to take them to the OTM service provider portal which allows them to view and manage their tenders and shipment events for tracking purposes. The other resource that was assisting with planning is now managing the freight settlement process using OTM.

Freight Settlement

Freight Settlement was implemented in Phase 2 of Dorskocil's OTM implementation. After several months of using OTM for planning and optimization they felt comfortable with moving forward with implementing Freight Settlement and bringing a process in house that had been managed by a 3rd party firm for many years at an expense of \$65K per year. In order to make sure the rates that OTM had been producing were accurate Lucidity performed an internal audit comparing rates from OTM planned shipments to what the 3rd party auditor had paid for those same shipments. In one scenario, Lucidity noticed that one particular carrier had been overpaid by approximately \$35K over the course of one month. After further investigation it became evident that the carrier had been tendered 21 rail shipments but had shipped those shipments over the road and charged Dorskocil over the road rates. This further illustrated the inability for a 3rd party firm in this situation to audit freight bills based on the invoice alone. Although the carrier had invoiced Dorskocil using the correct rates and mileage for a TL shipment, the 3rd party auditor had no visibility into the fact that those shipments should have shipped over the rail and invoiced as such so the invoices were considered valid and paid. As a result of this finding however, the carrier recognized their mistake and refunded Dorskocil \$35,000.

Dorskocil has also enforced all of their carriers with EDI capabilities to send their invoices via EDI 210 transactions to further automate the freight audit and payment process. As soon as an invoice is entered in OTM, it is picked up by a background process that runs at scheduled intervals. This process automatically matches invoices to shipments and runs through the process to approve invoices based on

user defined tolerances. Approximately 75% of all invoices flow through the auto-approval process sight unseen leaving just 25% for the user to audit further and reconcile with the carrier if needed. On average, invoices are cut back \$13K a month as a result of mistakes that are caught on the carrier's invoice.

Conclusion

As a result of implementing OTM Dorskocil has experienced numerous benefits and efficiencies. First and foremost has been a 12% reduction in freight costs primarily as a result of consolidation, using more cost effective modes, least cost carrier selection, and routing optimization. These results were determined 6 months after the initial go-live and when considering \$15 Million in annual freight spend it's easy to see what kind of impact 12% savings can have on ROI. Increased visibility can also not be underestimated because having the visibility and analytics that OTM provides has lead to several process improvements aimed at reducing freight costs as well. OTM has also helped automate many steps in the process that were mostly manual both on the planning side as well as the freight settlement side. This has allowed Dorskocil to spend more time proactively managing freight expenditures, performing what-if scenarios, and truly analyzing how effectively they ship freight. As their business grows and their shipping demand increases, Dorskocil has a solution in OTM that will help facilitate that growth, continuously improve their business processes, and control costs.