PROCUREMENT BULLETIN

February 2017 Issue

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[Case Study] Uber Enters Long Haul Freight Industry

Uber revolutionized the way that people travel from one place to another with its app that connects passengers and drivers. Now, the company has entered the long-haul freight industry with hopes of making the same strides for freight. Check out Uber Freight and its plans for the future of freight booking.

Situation: Uber Freight Launches

Image via Flickr by Mapbox

In July 2016, Uber acquired Otto, a self-driving trucking company, for approximately $650 million. Otto primarily creates self-driving truck kits for installation on freight trucks, but it also boasts some leading logistics technology. With this acquisition, Uber launched a new company division, Uber Freight.

Fully autonomous vehicles won't find their way to American roads for another decade or more, but Uber Freight plans to lead the efforts. Otto comes with new technology that handles tracking, mapping, and navigating. Uber Freight has already started building its freight network and pitching its freight services to trucking companies as a broker.

Approach: Replace Traditional Freight Brokers

Image via Flickr by nuclimeditorial

Uber and Otto are working together to build a network of shippers and carriers. Through this network, companies can find freight solutions more quickly, much like consumers can hail a ride in a matter of minutes with Uber's ride hailing app. Currently, most companies spend around five hours arranging freight for their goods. Uber Freight wants to eliminate the middleman and decrease that time to mere minutes. Uber already excels at matching passengers to drivers and plans to use the same logistics expertise in its Uber Freight network.

Uber Freight's goal is to transform the trucking industry by improving the notoriously low margins. The company states that it can decrease costs for shippers by matching freight more quickly and routing vehicles more efficiently. Industry experts remain skeptical, however, because freight decisions require input from multiple people, including truck dispatchers, drivers, dock managers, and more.

Kevin Abbott, a vice president at C.H. Robinson, told Reuters, "The transportation industry is a relationship-backed business. There's a lot more to it than just finding a piece of equipment." He implied that Uber Freight needs more than just technology to survive.

Impact and Advantage

Image via Flickr by MICOLO J Thanx 4, 2.9m views

Uber Freight is setting itself up for success by building its freight network now, but the company also faces several direct competitors in the self-driving truck space, such as Cargo Chief, Convoy, and Transfix. These companies all want to replace traditional brokers and pave the way for autonomous freight.

Eric Berdinis, Product Lead on Uber Freight, told Business Insider, "Even though we started with the announcement of the self-driving trucks, we were always intending to build a marketplace that would allow self-driving trucks to flourish". That's why a partnership with Uber is ideal for creating the freight network. Uber Freight acts more like a broker now, but eventually self-driving trucks will give companies even more freight options.

Uber Freight has more capital, expertise, and technology advantage than its competitors. If Uber Freight can find a way to manage all of the parties involved in freight decisions, it's posed to be successful in the trucking space.

Otto Delivers First Shipment by Driverless Truck

It will still be a decade or more before driverless trucks and other vehicles are commonplace in the shipping industry, but Otto just made an important step towards this reality. The Uber subsidiary made the first revenue-generating shipment by driverless truck on October 20, 2016.

Otto's Two-Hour Driverless Shipment

Image via Flickr by ravensong75

Otto shipped a truckload of Budweiser from Fort Collins, Colorado, to Colorado Springs, Colorado, while the driver monitored the route from the sleeper berth of the truck. The delivery was almost completely autonomous, since the driver only took the wheel as the truck entered and exited the highway ramp. During this two-hour journey in the morning hours, the truck averaged 55 miles per hour. Otto received $470 for the shipment because the truck was outfitted with its driverless truck technology.

As Reuters explains, "Transportation experts predict the earliest applications of autonomous technology will be in self-driving trucks, not cars. The technology is best suited to the relative predictability of long hauls on highways, rather than busy city streets with many distractions." Long-haul freight has a lot to gain from driverless trucks, and the industry is pushing for more research and testing.

Outlook for Driverless Trucks

Image via [Flickr] by jay-jerry

Otto is already working with several commercial partners to install driverless systems on trucks. The technology works to increase safety by precision mapping, GPS tracking, camera monitoring, and more. Eventually, it's Otto's goal to eliminate the driver entirely and operate all of its trucks remotely. The company will still need drivers to monitor the driverless system for the foreseeable future, though.

Several Otto competitors are also developing driverless truck technology. Business Insider reports that Daimler plans to release a model by 2020. The company made history in 2015 as the first to use a semi truck to test autonomous features on a highway. It's a race among Otto, Daimler, Cargo Chief, Convoy, Transfix, and others to gain market share of the driverless truck industry.

Changes in the Transportation Industry

Image via Flickr by jurvetson

While it's likely that the first fully autonomous vehicles will be trucks, most new cars already come with autonomous features. For instance, parallel park assist and lane detection sensors have made their way to almost every car manufacturer. Industry leaders, such as Tesla, have an autopilot mode that can merge on and off of freeways without driver assistance.

Autonomous features are making roads safer, and it's possible that driverless cars will be available to consumers in the future. However, the trucking industry has the most to gain from self-driving vehicles. Freight trucks can easily cost upwards of $150,000. Shipping becomes even more expensive with the addition of a driver's salary. Eliminating the driver would help keep shipping costs low for businesses and consumers. This is essential, as consumers are now demanding affordable one- and two-day delivery services.

Driverless trucks have much more practical uses than driverless cars. That's why the industry is more likely to see completely autonomous trucks before autonomous cars. Consumers are demanding faster services, and driverless truck companies want to deliver.

[Case Study] Wal-Mart Makes Strategic Move to Acquire Jet

Wal-Mart is a retail giant with more brick-and-mortar locations in the U.S. than any other brand. The company boasts "everyday low prices" and appeals to consumers looking to save money on groceries and household items. However, Wal-Mart's online sales are not as high as the company desires. In August 2016, Wal-Mart announced that it will acquire Jet.com for $3 billion as a strategic move to boost online sales. Check out what Wal-Mart stands to gain from this acquisition.

Situation: Wal-Mart Plans to Adopts New Online Strategy

Image via Flickr by JeepersMedia

Online sales make up only a small portion of Wal-Mart's overall revenue. USA Today reports that Wal-Mart had a total revenue of $482 billion in 2015, but only $13.6 billion came from online sales. Amazon made more than $100 billion in online sales in that same time frame. Amazon.com is a powerhouse in e-commerce, and Wal-Mart's acquisition of Jet.com is an attempt to take some customers from Amazon.

Dethroning Amazon might be impossible, but Wal-Mart can compete for the number two slot in online sales. Acquiring Jet puts Wal-Mart one step closer to this goal. Wal-Mart wants to create a seamless shopping experience that incentivizes customers and thinks Jet can help the company maintain its signature motto of "everyday low prices."

Approach: Draw from Jet's E-Commerce Expertise

Image via Flickr by Marc van der Chijs

Jet sells a range of products on its website. You can find everything from furniture and household goods to electronics and groceries on the site. Customers at Jet.com receive a bigger discount based on the size of their order, and Wal-Mart plans to adopt Jet's bulk ordering strategy to improve its current online ordering platform. Jet will remain a separate brand because it appeals to more affluent shoppers than Wal-Mart's typical customers.

Wal-Mart and Amazon have very different strategies. Amazon compares options from several retailers to offer low-priced options, while Wal-Mart strives to offer lowest price option itself. Jet's dynamic pricing algorithm is what appealed most to Wal-Mart. While Amazon finds the cheapest retailers and offers free shipping with Prime memberships, Wal-Mart offers low prices and incentives for buying more.

Impact and Advantage

Image via Flickr by JeepersMedia

Jet has only been in business for a little more than a year. The company has proven successful in this short time frame, building a value of $3 billion. However, it's not entirely clear whether using Jet's bulk pricing strategy will help Wal-Mart increase its online sales. The company hopes that online customers will check Walmart.com first before moving to other sites, such as Amazon.com.

As Doug McMillon, president and CEO of Wal-Mart Stores, Inc., said, "We're looking for ways to lower prices, broaden our assortment, and offer the simplest, easiest shopping experience because that's what our customers want. We believe the acquisition of Jet accelerates our progress across these priorities."

For Wal-Mart, the real advantage comes from the experience of Jet's CEO, Marc Lore, and his partners Mike Hanrahan and Nate Faust. These innovative thinkers will help Wal-Mart try fresh ideas and appeal to a broader range of customers. Wal-Mart has already mastered brick-and-mortar retail, and it can certainly step up its game in online retail.

UPS and FedEx Increased Their Rates

It's typical for shipping rates to increase every year to accommodate employees' annual salary increases and new technology upgrades. At the end of 2016, however, UPS, FedEx, and the United States Postal Service (USPS) increased their rates higher than what's normally expected. It's important to understand shipping rates when choosing a delivery service provider because each company provides different rates and surcharges based on package size, weight, route length, and more factors. There's no one-size-fits-all solution. Check out the new rates for 2017 and learn why the large increases happened.

What Are the Shipping Rates for UPS in 2017?

Image via Flickr by JeepersMedia

UPS increased its rates by an average of 4.9 percent over the rates for 2016. The new 2017 rates went into effect on December 26, 2016. This happened across all of the company's services, including ground, air, and freight. Additionally, UPS added a new handling charge that it intends to assess for packages that exceed 48 inches on the long side. This is a change from the additional charge for packages exceeding 60 inches in 2016. UPS also added several other surcharges to its shipping fees and rates.

What Are the Shipping Rates for FedEx in 2017?

Image via Flickr by JeepersMedia

FedEx also increased its shipping rates for 2017, but they didn't go into effect until a week after UPS's new rates began. FedEx's rate increases happened on January 2, 2017 and went up by an average of 4.4 percent across all of its services. Additionally, FedEx increased its residential surcharge by 5.1 percent.

What Are the Shipping Rates for USPS in 2017?

Image via Flickr by Eric Fischer

The USPS didn't raise its rates as much as UPS or FedEx, but the company still levied above average rate increases. They ranged from 2.7 percent to 4.9 percent across the company's various services. The average rate increase was 3.9 percent. The USPS doesn't impose any surcharges, but that doesn't mean that this shipping provider's rates are always lowest.

Why Did Rates Increase More Than Normal?

E-commerce is growing rapidly, and consumers are demanding faster and faster delivery services. These are two of the biggest reasons for the shipping rate increases in 2017. Fast fulfilment costs more money, and it's challenging for retailers and shippers to manage. Shipping rates also change based on fuel costs, service levels, delivery zones, and several other factors. Shipping rates will continue to rise overall, but as shippers develop methods for accommodating faster delivery services, the rates shouldn't rise as drastically as they did from 2016 to 2017.

When shipping rates go up, it's time for your company to reevaluate your shipping service provider. It may be more advantageous to switch to a new shipping provider to ensure that you keep your shipping costs to a minimum. New shipping rates can also help facilitate carrier negotiations, faster delivery timeframes, and new packaging sizes. Make sure that your company analyzes how the 2017 shipping rate increases affect your company and then make the appropriate changes.

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