case study

Vera Bradley

Vera Bradley is a shipper of consumer soft goods; primarily handbags, totes, and luggage. Guided by founders, Patricia R. Miller and Barbara Bradley Baekgaard, Vera Bradley has earned a reputation as a leader in the gift industry. Creating stylish quilted cotton luggage, handbags and accessories, the company combines smart product designs with distinctive and colorful fabrics and trims. At the outset of enVista's involvement with Vera Bradley, the shipper single sourced their parcel shipping with UPS. Shipping almost exclusively out of their Roanoke, IN distribution center, Vera Bradley was shipping nearly 400,000 packages per year. Ninety-six percent (96%) of the total package volume consisted of mid-to-lightweight business-to-business Ground packages. Vera Bradley engaged enVista to perform an analysis to determine if the existing pricing agreements were in line with the market and if they aligned with the shipper's supply chain.

The Analyses

Using twelve months of carrier data, enVista developed a number of analyses and reports that provide insight into Vera Bradley's parcel shipping.

The Parcel Profile

The first step in understanding a parcel shipping situation is the construction of a Parcel Profile. This document is designed to provide stakeholders with a high-level view of the parcel links within the supply chain. Information is provided concerning service level allocation, package weights, zone distribution, delivery densities, lane utilization, surcharge and accessorial utilization, seasonality, and much more. The value of such a document is self-evident. In general, the Parcel Profile serves four purposes:

- To uncover savings opportunities that should be explored
- To provide information necessary for enVista to develop a deep understanding Vera Bradley's transportation activities and needs
- To provide information that the shipper may not otherwise have regarding their shipping operations
- To provide all bidders with a level playing field should a RFQ be issued

The Operational Abstract

The operational abstract provides all stakeholders with detailed information about what is expected of the selected carrier in terms of service, value-adds, support, etc. This document serves as the roadmap for all project participants as scenarios are developed and options are considered.

The Cost Model

enVista's proprietary cost model provides the most robust, most granular, most inclusive cost analysis in the industry. All factors affecting parcel costs are incorporated and accounted for within the model.

The Benchmark Analysis

Benchmarking as a way of establishing parcel agreement targets, and has been a controversial topic over the past several years. Some argue that due to the differences in shipper metrics benchmarking does not provide an apples-to-apples comparison. The key to valid and useful benchmarking is in choosing the appropriate benchmark peers. The closer the peers' profiles match the shipper's, the more accurate and valid the benchmarks. This is why it is vitally important to choose a partner with deep experience in the parcel pricing space.

The Project

Based on the results of the benchmark analysis, Vera Bradley engaged enVista to undertake and manage a Parcel Contract Analysis & Negotiation (CAN) project. The Benchmark Analysis suggested that Vera Bradley was significantly overpaying for parcel services and that savings opportunities existed. Using a strategy built around benchmarking and primary, secondary, and tertiary cost driver analysis, enVista formulated project targets,

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constructed bidder packets, issued a formal RFQ to the bidders, and managed the bidder interactions on behalf of Vera Bradley. Once all carrier bids had been received and analyzed, enVista presented Vera Bradley with multiple carrier award scenarios, each representing varying levels of risk and return. Vera Bradley chose to pursue a single-source FedEx solution, which provided the maximum net cost savings.

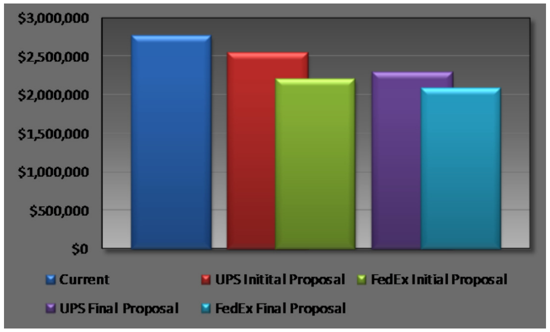

Figure 1: Carrier Agreement Summary

UPS initially offered concessions which provided annual savings of $216,000 (7.8% of current net). UPS' proposal seemed overly conservative, providing only minimally improved transportation discounts, which also lowered the Fuel Surcharge somewhat. Conversely, FedEx's offer was relatively aggressive, providing savings of $553,000 (20.0% of current net) in 2010 alone. In addition to improved discounts, FedEx's proposal included significant concessions on specific requested surcharges and DIM weighting.

Although the FedEx proposal was aggressive, benchmarking suggested gaps on several key cost drivers still remained between FedEx's proposed program and Vera Bradley's peer average. enVista developed a second round negotiation strategy and carrier-specific guidance statements to assist FedEx and UPS in developing their second round proposals.

Extensive discussions with both UPS and FedEx resulted in final proposals from both carriers. Both carriers significantly improved their initial proposals. FedEx's final offer provided $673,000 (24.4% of current net) in annual cost savings. Conversely, UPS offered concessions which provided only $333,000 (12.1% of current net) in annual cost savings. As always, enVista evaluated not only the landed transportation costs, but provided an analysis of the fully loaded cost to serve for the entire parcel portfolio. After accounting for switching costs, carrier-specific value adds, network and operational optimization opportunities, resource and asset requirements, and carrier-provided resources, it was determined that FedEx offered a total value proposition $497,000 greater than UPS over a three-year period.

With enVista's assistance, Vera Bradley designed and executed a transition plan to allow for a smooth, efficient cut over of parcel volumes with minimal impact to both external and internal customers.

The Takeaway

The hinge pin to the success of this project was Vera Bradley's ability and willingness to undertake a carrier change. In this instance, FedEx was able to offer the superior value. In others, UPS may represent the optimal solution. The key is maintaining a flexible network. Building relationships with your vendors, particularly your parcel carriers, is always a worthwhile goal. However, care must be taken that those relationships do not become chains that bind you too closely to your current carrier.

Carriers will attempt to forge these chains in two ways. The simplest method carriers use to achieve this goal is through the agreement itself. UPS recently began putting both early termination penalties into their pricing agreements, as well as including termination language that will remove discounts if the shipper opens the agreement to renegotiation during the agreement term.

These sorts of tactics should not be tolerated. Revenue based discounts and agreement out clauses provide carriers with adequate protection against low-volume, high-discount scenarios. Additional punitive terms and conditions are not only against the shipper's best interest, they are also unnecessary. Shippers can also become bound to their carriers through customized services or operations.

One of the benefits of a good relationship with your carrier is the ability to implement custom solutions to your shipping needs. Late pickups, carrier-provided hardware and software, direct drops and zone skips/jumps, the list of things carriers can and will do for their valued customers is endless. However, allowing these customized solutions to become so ingrained in your supply chain that you cannot live without them is a mistake many shippers make. The moment a carrier becomes irreplaceable is the moment you lose all ability to impact the price you pay for carrier services. This is not to say that carriers cannot be enlisted to solve problems or provide solutions. However, it is imperative that as carriers are called upon to provide value, that you as the shipper develop alternative solutions and devise strategies for retaining your independence. This independence gives you the only piece of leverage in the carrier relationship. Retaining it is key to your success in achieving equitable, cost effective parcel agreements in the future.

For more information on enVista's services, please call 877-684-7700 or contact info@envistacorp.com

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