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## SUPPLY MANAGEMENT<sup>®</sup>

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A Transportation and Logistics  
Contracting Map



# A Map for Transportation and Logistics Contracting



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Businesses of all sizes are increasingly devoting attention and resources to supply chain services procurement, and transportation- and logistics-related offerings are a key opportunity. Involving any mode, asset deployment and service level, these services include motor, rail and ocean carriage; brokerage and non-vessel operating common-carrier service; ocean-freight forwarding, indirect air carriage, customs brokerage, warehousing, distribution and fulfillment, and last-mile delivery.

The inherent supply chain risk that can occur with these outsourced services is acute — and can include interruption due to (1) delay, damage, contamination or loss of goods, (2) customer-service failures and (3) regulatory compliance violations. When developing

best-in-class procurement strategies to handle these risks, active supplier management and strong provider diligence are crucial.

However, when there is a serious service failure, one of the first places professionals look for answers is the applicable contract. Often, that's a supplier-favorable form — an outdated contract that doesn't address modern business-practice and industry trends, or a poorly written template that provides no relief and leaves more questions than answers.

## No Two Contracts Are Alike

Procuring transportation and logistics services requires building a strategic network of providers, lanes, nodes and services in a highly tailored, fact-intensive world. Unfortunately,



the off-the-shelf agreements used by service providers were designed for each service provider or industry on one hand, and the multitude of enterprise customers on the other. But this isn't optimal for companies with strong supply management practices.

When procuring transportation and logistics services, developing reasonable yet finely tuned template agreements is the No. 1 strategy for maximizing performance, minimizing risk and managing spend. However, a surprising number of companies still use paperwork that is unreasonably favorable to the provider, often thinking that their volumes aren't high enough for a provider to negotiate, or that negotiating contracts is detrimental to the relationship. These concerns are typically not justified. Service providers generally look to strengthen the supplier relationship by considering and negotiating a company's service contract — provided it is suitable for the desired service.

Buy-in from stakeholders is necessary for procurement strategy execution. Internal stakeholders are increasingly diverse, representing a variety of departments and personalities, each with strong views and goals relating to supply management matters. Those with the strongest opinions on the contractual side of logistics outsourcing often sit in legal, risk-management, trade-compliance and tax departments.

Internal alignment will increase the speed of bid, negotiation and onboarding processes. It will also present an opportunity to update bid planning and RFQ, as well as gain critical input for template agreements with maximum effect and minimal surprise. Effective use of contract templates must ultimately serve the interests of stakeholders and the unified strategy.

## Contract Considerations

**Contract templates meet unique needs and establish expectations.**

Developing contracts is about alignment,

not force. Operational details of contracts highlight what services will be performed, how they will be performed, how they will be priced, and the course of events if something goes wrong. A healthy perspective facilitates provider selection during bid processes by allowing for apples-to-apples comparisons while achieving reasonable certainty that services and costs are well disclosed. It also lends clarity to one of the elements of the commercial exchange that is so simplistic, it is often overlooked: What is it that we are buying, and how?

KPIs and service-level agreements (SLAs) are tools used to further align expectations without overburdening performance. Additionally, when used wisely, tools like established management-meeting schedules, escalation plans and required root-cause analysis yield opportunity for strong partnerships while respecting the buy and sell sides of the relationship. Management communication of issues, both positive and negative, can incentivize correct behaviors. However, contract tools do nothing if they are not exercised.

**Negotiation can be a win-win when both sides are focused on priorities.** Balancing time, risk and return is critical to avoid getting bogged down in contract negotiation or acceptance of detrimental terms. A firm understanding of best practices and prioritized risks can make a difference of weeks — even months — when it comes to closing out bids. Modern electronic contract-negotiation tools and contract-management software can provide an organization and workflow edge. Risk-based perspectives can help narrow the range of key issues by focusing on relative risk, value and the potential supply chain impact of a service provider failure.

In the heat of negotiation, three options are available to all sides: (1) accepting present terms, (2) finding common ground and problem-solving or (3) walking away. Playing the right card

will always require knowing what each side is playing to achieve.

**Remember that contracts and their relationships do not quietly end upon signing.** The ongoing refinement process survives bid seasons. When a contract is implemented well, it yields a real impact on corporate performance in response to internal and external challenges.

Tailored agreement templates ease contract administration and provider management (1) by clarifying expectations for renewals, updates to services and rates, and continuous improvement, and (2) because similarly situated providers will be working from the same or nearly identical terms.

Agreement templates also can help manage the impact of incidents. For example, a transportation and logistics template can align with internal contingency plans by addressing required data feeds and event notices, business continuity and disaster recovery, termination rights and post-termination assistance, escalation procedures, and dispute resolution requirements.

**Supply chains are growing more complex, and contracting must rise to the occasion.** Companies across all industries seek to maximize the potential and spend of their transportation and logistics operations. The impetus for this focus is a recognition that these services are no longer the realm of lumping or another old-fashioned pejorative term. They are now a significant part of enterprise value propositions. They lay at the heart of operational efficiency and, for some supply chains, are fundamental to end-user buying decisions. They may even serve as the personified "face" of an enterprise through residential last-mile delivery.

Transportation and logistics procurement can better meet companies' needs with strategic vision, advanced planning and thoughtful crafting of service-delivery terms. **ISM**