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MANAGEMENT OF CONTRACT FOLLOW-UP AND REPORTING IN INTERNATIONAL LOGISTICS COMPANY

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In 2017 International logistics company studied improvement capabilities of contract follow up and reporting. This functional thesis aims to create new and transparent contract management process and define tools to ensure administration and reporting quality. Improved contract management system supports senior management to evaluate, optimize and develop profitable customer market segments.

Research methods such as interviews and process analysis were used to study and re-new contract management process. By defining existing contract process, follow up and reporting, research could re-organize process to bring more clarity in administration and organization. Study focused on new ECM tool, which could improve contract management with complex Sales contracts.

KEYWORDS:

logistics, contract management, revenue management, contract follow up, profitable market segments, revenue development, pricing

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SOPIMUSSEURANTA JA RAPORTOINTI KANSAINVÄLISESSÄ LOGISTIIKKAYRITYKSESSÄ

Opinnäytetyön tekijä sai toimeksiannon kansainväliseltä logistiikkayritykseltä tutkia mahdollisuuksia parantaa kuljetussopimusten seurantaa ja raportointia. Toiminnallisen opinnäytetyön tavoitteena on luoda uusi ja läpinäkyvä sopimushallintaprosessi ja määritellä tarvittavat työkalut, joilla varmistetaan raportoinnin laatu ja hallinta. Raportointia parantamalla yrityksen johto kykenee arvioimaan ja optimoimaan liiketoiminnan kannattavuutta ja kehitystä eri asiakassegmenteillä.

Tutkimusmenetelminä käytettiin haastatteluja ja prosessin vaiheiden analysointia. Määrittelemällä olemassa olevan sopimusprosessin, seurannan ja raportoinnin tutkimus voisi uudistaa hallintamenetelmät ja vaiheet organisaatiossa sekä tuoda selkeyttä koko prosessiin. Työssä tutkittiin ECM työkalun mahdollisuuksia parantaa sopimushallintaa.

ASIASANAT:

logistiikka, sopimushallinta, liikevaihdonkehitys, sopimusseuranta, kannattava liiketoiminta, liikevaihdon kehitys, hinnoittelu

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LIST OF ABBREVIATIONS

Abbreviation	Explanation of abbreviation
2PL/3PL/4PL	$2^{nd}/3^{rd}/4^{th}$ party logistics
B2B	Business to business
B2C	Business to customer
CRM	Customer Relationship Management
DHL	Deutsche Post DHL Group
ECM	Enterprise Contract Management
EEA	European Economic Area
ERP	Enterprise Resource Planning
FedEx	FedEx Corporation, FedEx Acquisition B.V.
ICC	Chamber of Commerce (ICC)
POD	Proof of Delivery
RFQ	Request for Quotation
RM	Revenue Management
SCM	Supply Chain Management
SME	Small and Medium Enterprises
SRM	Supplier Relationship Management
TNT/TNT Express	TNT Express N.V.
UPS	United Parcel Services Inc.

1 INTRODUCTION

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2 INTERNATIONAL LOGISTICS

International refers to business in relation of multiple individuals or companies having transactions in several nations. Logistics as trade related refers to shipping of goods; physical products between multiple participants in supply chain. (Wood, Barone, Murphy & Wardlow 2002, 1.)

2.1 International logistics in B2B market

International logistics consist of business to business on time package market excluding logistics in ocean, bulk cargo or air freight in the thesis. Thesis doesn't cover logistics of human, animal, service transportation or internal logistics such as goods organized within manufacturing industry. International logistics is depending on several parties such as petroleum, legislations, economic or political environment of nations, unsettled situations or even cultural differences.

Figure 1. International Logistics influence factors according Wood et al. (2002)

Unsettled situations for example, terrorist attacks in New York 2001 or Russian operations in Ukraine have affected on logistics operations. Unstable operational environment increases or decreases the costs of transportation. For example, secured air safety is key element in air freight business and politically stable relationships avoid disturb of traffic flow. Currently petroleum is significant cost factor in logistics and change of oil prices have direct effect on turnover and profitability of international logistics companies. In the future energy needed in transport of goods might come from different source depending technological inventions available. (Wood et al. 2002, 1-88)

Each nation wants to increase their own economic status by trading to both directions. Trade alliances such as the European Union and the North American Free Trade Agreement (NAFTA) present the most important multi-country trade agreements in the world. (Wood et al. 2002, 430)

2.2 Supply chain management and time definite services

Supply chain management and logistics have taken major steps while our economic environment has changed rapidly because of improved information systems. Modern technology supports manufacturers and re-sellers to cut costs from outdated “storage logistics” to new “need logistics” based on end customers and users real demand of products available. Change started in early 90’s and is now taking big leaps while building B2C based solutions. Time-defined logistics has changed business environment, where goods are transported fast and longer distances. Logistics providers and whole supply chain can respond increasing or decreasing demand quicker than before. Today SCM is familiar with all informative system tools available to improve operative actions needed. There is common code language in use to integrate informative systems to share knowledge/information between suppliers and manufacturer/distributer.

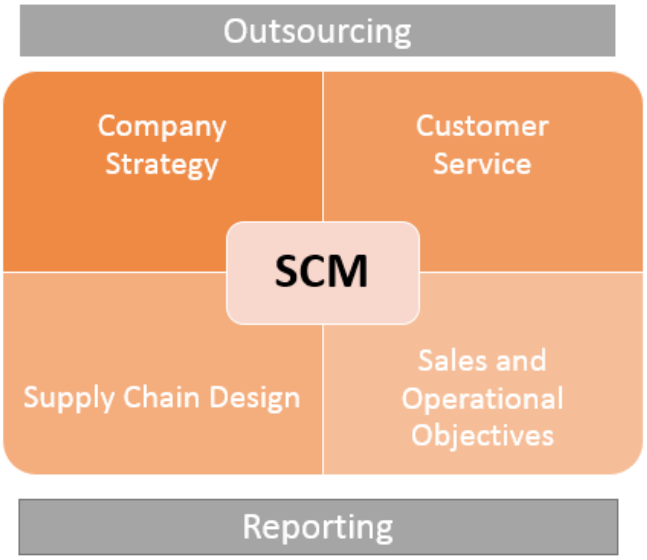

Figure 2. SCM framework supporting cost-efficiency (O'Byrne 2011, Johnston 2016)

SCM has significant effect on operational and finance of customers of logistics suppliers, and its role in the organizations is to support customer driven business growth and bring value to whole chain. In current competitive business environment key to success relies on filling of customer's need and cost-efficient supply chain.

SCM needs proper framework and operating model to support cost-efficiency within any organization. SCM supports company's short- and long-term strategy, where end customer is in focus. After setting of strategy companies can use SCM models and solutions to carry out their business requirements. SCM supports Sales and Operational objectives while remaining cost efficient and giving proper output of products in demand while making sure that short delivery times are guaranteed for end user. Supply chain design means in this framework the whole SCM model where information technology plays significant part of proper supplier network. Outsourcing and reporting are tools for SCM to support and supervise cost-efficient SCM model. Reporting needs to be able to give informative overview of operational performance versus costs considering business field in question. In many accusations lack of proper information and tools reflects to users

within supply chain while causing additional costs. Systems need to support whole SCM and bring value. Nowadays logistics is outsourced to different couriers or freight forwarders, who have global network coverage and possibilities to offer different level of services needed. Factory or business location doesn't have significant role in current logistic environment. Time-definite logistics can bring value and cost-efficient solution for whole supply chain. On-time logistics can help to cut costs from warehousing, asset organizing or meeting service demands. (O'Byrne 2011; Johnston 2016)

2.3 Future of international logistics

Future of logistics define scenarios, where logistics is heading for the moment with all new technology available to support complex logistics and avoid wasting of global resources. Price Waterhouse Coopers has used following scenarios to forecast future of logistics. Their view is based on forecasting demand of customers while taking into consideration improvement of technology and available innovations. Based on their view 1. Scenario is called "Sharing the PI", which leans on idea of company collaboration sharing their resources in terms of network and standardize of deliveries to align package size format for example. 2. Scenario "Start-up, shake-up" states that there will be new entrants market players, which can shake existing stakeholders by using data analytics, blockchain or other technologies in hand. Dominant player will control delivery until final delivery, which is handled though different ground solutions. In case of major retail players expand into logistics to cover their own needs, they become competitors instead of customer's role. This is 3. Scenario called "Complex competition". These retailers buy SME logistics companies to serve markets and use data of customer behavior while optimizing their supply chains.

In this scenario technology companies having new innovations in robotics, automation and autonomous vehicles, formerly suppliers of industry, enter to the logistics business and become competitors.

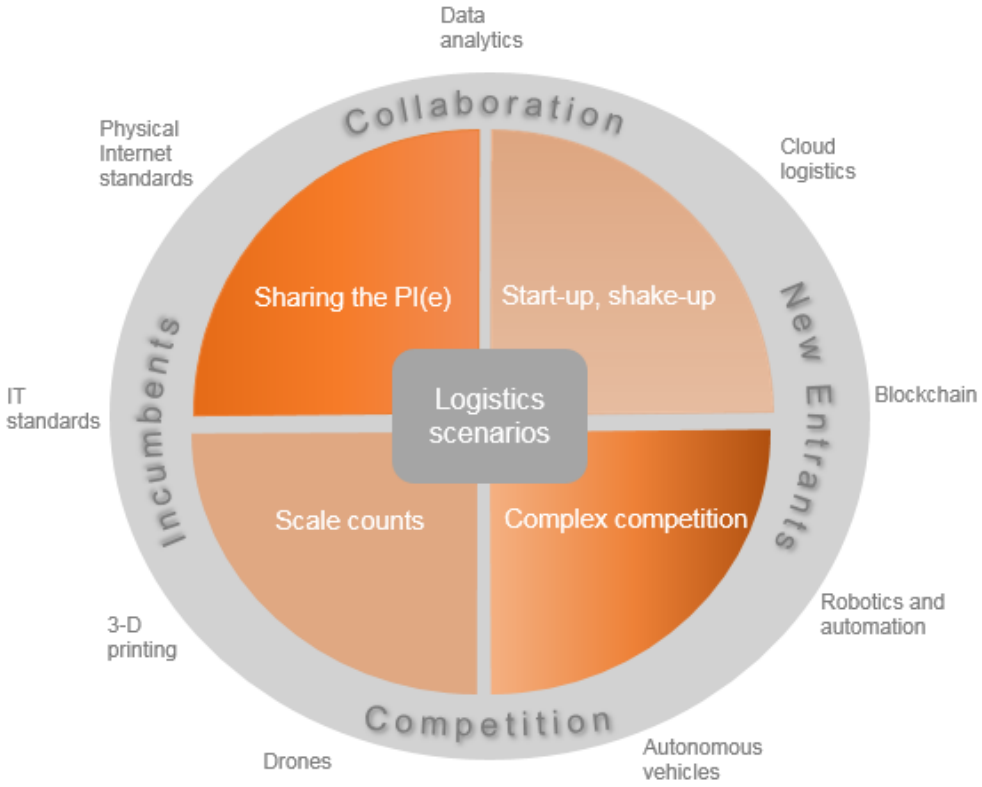

Figure 3. Logistics scenarios (forecast of future in four scenarios) by PWC Tipping & Kauschke (2016)

4. Scenario is “Scale matters”, where current logistics service providers will increase efficiency by optimizing their logistics operations and taking advantage of new technology. Companies invest capital in both: investments to new technologies and staff with expertise to create a significant market position. Major players must merge to extend their worldwide service coverage. (Tipping & Kauschke 2016)

Future trends in logistics as forecasted: green energy, 3D printing, just-in-time deliveries, urbanization and reduced stock space forces companies to search other options of transporting goods. Cities suffering from heavy pollution and

overpopulation need quick solutions such as small electric vehicles (SEV), that are used to transport goods without emissions. To respond to these challenges, legislation and emission targets must support green energy options within logistics. However, there are several obstacles to grow the number of electrical vehicles for example: lack of local legislation and policies support, operational patterns, cost of purchasing vehicles, technical performance including loading capacity, charging times and operational ranges of electric vehicles. (Melo, Baptista & Costa 2014, 295-314; Quak & Nesterova 2014, 265-294)

Currently B2C market is growing fast and need of logistics solutions is in demand. In Nordic business area, several courier companies including DHL Ex-press are trying to adopt package drop off points within major cities to avoid several package delivery attempts to consumer customers. Already we have seen trials to provide robotic technology in transportation technology such as self-driven cars or transportation package helicopters. Mega-size online shop-ping sites like Amazon.com has influence to control B2C logistics market. Amazon has taken next steps to create their own logistics chain by investing to own network and serving their customers even faster. (Lierow, Janssen & D'Incà 2017)

Picture 1. Posti testing parcel delivery helicopter robot, Posti (2015)

Companies are seeking for better practices to ensure that their SCM is satisfying their own customers. Customer experience, in terms of better service and taking control of the whole lifecycle of the product, is key driver to change sup-ply chain in constant business development. Management of customer companies are eager to define cost-efficient solutions to improve SCM and even outsource SCM to service providers with better capabilities and knowledge. For international and major size companies outsourcing of logistics is often cheaper option to control whole supply chain. There are several reasons supporting change of control as decision process is handled without proper tools and management wishes to find cost efficient solutions in all company processes. Compared to 20th century companies have better range of services available at lower cost. Couriers have efficient and large coverage networks, which can be used easily to unite world as a single community even by fast road connections. There are possibilities to outsource logistics for companies providing 2PL, 3PL and 4PL services. New information systems provide possibilities to arrange e-auctions for logistics providers. (Mann 2016; Logistiikan maailma 2016)

However, as Jonsson and Holmström describes in their article about future of supply chain process, we haven't understood the framework of supply chain compared to practical evidence, that supports cost efficient SCM. Based on Jonsson and Holmström studies there is not enough information available between theory and practice and a few frames are used to generalize SCM. Supply chains are complex considering wide range type of business in its environment and all participants involved in whole supply chain. It is likely for supply chain to change, because of individual information in relation to customers and their behavior as buyers. (Jonsson & Holmström 2015)

3 CONTRACT MANAGEMENT

Contract is set of documents, governed and restricted by law, that clearly establish the boundaries, extent, and intent of the executing parties' relationship, along with the rights and responsibilities of the entities involved. (Saxena 2008, 5)

3.1 Contract types

Contract management is having a key role in companies and organizations to supervise modern and complex contracts. Pressure of having easy and functional contract management system comes from several forces such as legislation, customer demand and internal risk control. In this chapter contract types are defined in general, lifecycle of contract and contract management system presented. Contracts differ significantly from each other taking into consideration of use of the contract, field of contract and legal demands of the contract. Project related contracts aren't comparable between contracts having long term business relations or engagements. Saxena uses following categorization of contract types based on relation of pricing in the contracts.

Main contract types in current business environment:

- Fixed-price contracts
- Cost-reimbursable contracts
- Partially defined contracts
- Letter agreements

(Saxena 2008, 6)

Uher and Davenport refer to nature of contract while trying to define type of contract. Nature is the type of business in question for example: engineering, building, maintenance, management or design. Contract's nature differs in terms of

work, relationship, standard form according general conditions or common contract. Legally contract is formed, if all parties involved accept the terms of the contract. (Saxena 2008, 6)

In the past, contract management didn't have to overcome the challenges faced in current business environment ruled by changing economic environment, globalization, competition, variety of supply chain, technological advantages and expand of legislation. Contracts aim to protect both parties from legal issues while gaining constant engagement of business relationship. (Saxena 2008, 5)

In logistics, there exists specific standardized set of trading terms and conditions to support traders to ensure proper handling of their goods in transport. These terms are called Incoterms, which were created and published by the International Chamber of Commerce referred as ICC. Incoterms are often incorporated to contract to have a precise understanding of obligations for such an event as loss or damage. Terms are referred already in request of quotations, where representative buyers of companies send open RFQs to logistic service providers. Companies might use 3rd party resources or consultants to arrange often highly complex RFQs. RFQs consist of several conditions requested to be part of final logistic service contract.

TERMS FOR ANY MODE/S OF TRANSPORT:

EXW, Ex Works - the seller delivers when it places the goods at the disposal of the buyer at the seller's entities or at another named place. The seller isn't obligated to load any goods on collecting vehicle/s, nor to clear the goods for export, where clearance is mandatory.

FCA, Free Carrier - the seller delivers the goods to the carrier or another party nominated by the buyer at the seller's premises or another named place. The parties are well advised to specify as clearly as possible the point within the named place of delivery, as the risk passes to the buyer at that point.

CPT, Carriage Paid To - the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed

between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.

CIP, Carriage And Insurance Paid To - the seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such place is agreed between parties) and that the seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination. The seller also contracts for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage. The buyer should note that under CIP the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements."

DAT, Delivered At Terminal - the seller delivers when the goods, once unloaded from the arriving means of transport, are placed at the disposal of the buyer at a named terminal at the named port or place of destination. "Terminal" includes a place, whether covered or not, such as a quay, warehouse, container yard or road, rail or air cargo terminal. The seller bears all risks involved in bringing the goods to and unloading them at the terminal at the named port or place of destination.

DAP, Delivered At Place - the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller bears all risks involved in bringing the goods to the named place.

DDP, Delivered Duty Paid - the seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination. The seller bears all the costs and risks involved in bringing the goods to the place of destination and has an obligation to clear the goods not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities.

(International Chamber of Commerce 2017)

3.2 Lifecycle of contract

Contracts intend to live in constant lifecycle, where they are launched for birth and raised to apply certain principles and common fundamental aspects. In early stage definition of relationship between contract parties is needed. Later, both assignees are engaged to certain targets or goals to build contract for. Contract collaboration is negotiation phase, where parties draft the actual contract. During negotiations, company or organizational policies and procedures are applied based on their own defined internal contract and approval processes. Several functions participate in contract development including such as sales, procurement, legal, tax, risk management, pricing, insurance or audit. Based on company or organization strategy senior management might be involved in making decisions. Usually management's involvement is based on the value of contract or customer related profitability. In practice, collaboration requires lots of documentation and proper handling of contractual material depending on type of contract negotiation and challenges within different conditions. Information flow might run through cloud service platforms, web-based applications or more traditional manners like e-mails. In contract execution phase whole contract content is approved and reviewed. Any contract requires official start date and end date or other agreement of expiry. Finally, signatures of authorized persons as evidence of contract engagement will begin the operational stage of contract, where applying of conditions lead to fulfillment of certain need or dispute of contract. Administrative phase begins after the official contract period is launched and contract fully implemented. Contract administration requires constant supervision of contractual conditions implemented and followed in necessary functions of whole organization. Complex contracts include large number of obligations such as pricing related rebates, service standard requirements, performance marks or additional amendments, which need proper system implementation to be fulfilled. Management should define and establish contract administration process to ensure contract tracking and auditing in constant manner, otherwise original contract strategy value falls.

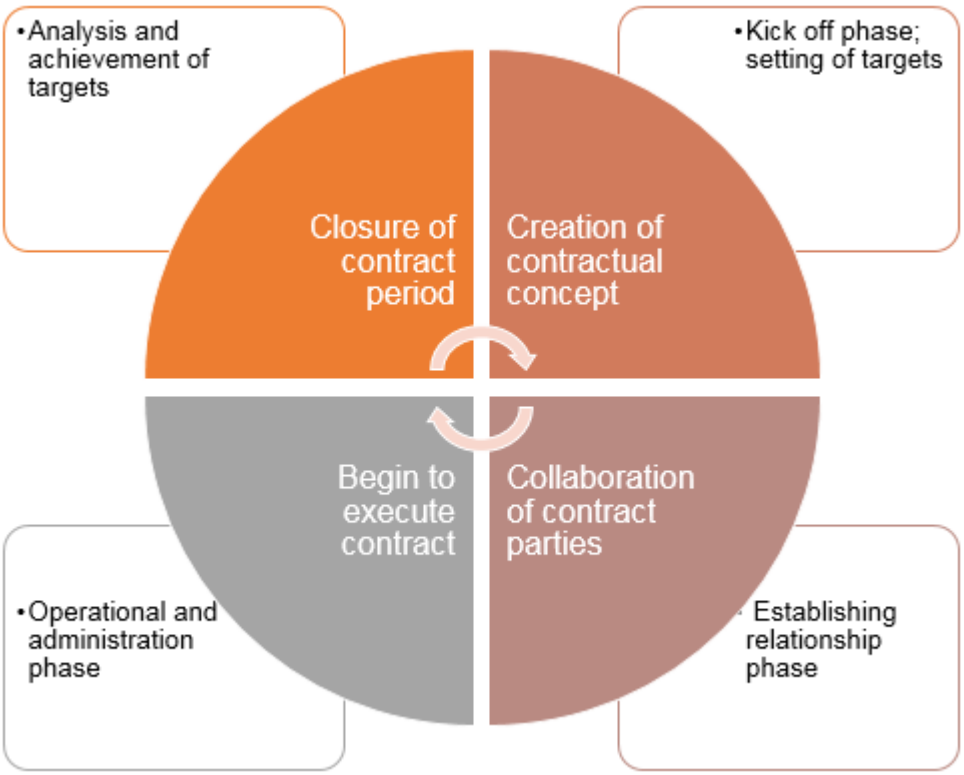

Figure 4. Contract lifecycle (Modified Saxena 2008,13-17).

Closure of certain contract period is critical to re-establish business relationships and extended existing contracts. In this stage contract period should be analysed and reviewed to define a list of “lessons-learned”. Especially, cost and value of contract against budget spend must be reported to ensure expand of profitable products and customers in different market segments. Analyse period defines future of new contracts in the company. By completed and successful analysis of contract relationships companies secure their future business decisions. (Saxena 2008, 12-15)

It requires resources and efforts from organizations to carry out whole contract lifecycle process in efficient manner. Management is required to ensure finding of contract lifecycle process related issues and correct discovered problems to secure organization from contractual risks and lack of revenue or cost development. In administrative phase definition of crucial contractual components is the key to succeed within implementation of contract.

Figure 5. Components of successful contract lifecycle (Modified Saxena 2008,16-17).

In case of incomprehensive information flow not involving required functions, there is possibility to not succeed in administrative objectives. In ideal environment, informative applications support administrators to complete their duties and following of contract components in constant manner. Proper tools bring clarity in process and help functions to share information and correct underlying open issues. Performance is measured in quality analysis of whole contract lifecycle process. (Saxena 2008, 16-17)

3.3 Contract management and solutions

If you are not in control of your contracts, you are not in control of your business (Saxena 2008, 20).

In the past decades multiple, electronic information system applications referred as ECM solutions have helped and developed contract managements and systems. Because of increasing number of complex contracts, ECM solutions aim to support complete contract lifecycle and ensure correct process phases handled in organizations. Lack of comprehensive contract management leads to increase of internal costs and risks as contracts aren't followed according to agreement. Incorrectly or non-implemented contract conditions might harm long-term customer relationships and profitability.

Findings of negative outcome of contract management based on Saxena:

- Spending by buyers
- Overcharging by suppliers
- Automated renewal of unwanted products and services
- Inability to monitor contractual conditions
- Visibility of performance of supplier vs contract
- Loss of resources because of insufficient contract lifecycle

ECM applications promise to reduce costs and losses in non-applied contractual conditions. Optimization of internal process with use of technology is sufficient and provides clarity, while removing of unwanted internal actions and behavior.

According to Saxena ECM solutions provide:

- Documentation capabilities including workflow and audit trail
- Author support with configuration capabilities to provide framework

- Collaboration applications to develop contracts
- Resource planning and time schedule while cost analyze
- Performance and compliance reporting
- Integration and reporting within supporting systems (for example: ERP, SRM and CRM)

While ECM is a powerful tool for senior management to monitor its business, it doesn't succeed without ensuring operational usage. To provide value to company, ECM solution must be created based on the needs of organization to support complete lifecycle of processes within any organization. (Saxena 2008, 18-26)

4 REVENUE MANAGEMENT

Pricing and revenue optimization is a tactical function. It recognizes the prices needs to change rapidly and often and provides guidance on how they should change. (Philips 2005, 1.)

4.1 Revenue management

Revenue management's roots are in passenger airline industry, where companies manage their capacity in different fare classes to establish sustainable revenue growth. RM combines business forecasting, accounts risk management and pricing. While supporting profitable revenue growth RM defines the best market position and finds competitive advantages to accelerate business development. In this chapter revenue management is described from air cargo industry point of view. RM is considered company's key interest, when focus is on profitable revenue growth. In the 90s aviation market launched the basis of RM in United States. Airline passenger industry created models for overbooking purposes aiming for better profitability and revenue development. These models acted as foundation of followed air cargo models created in beginning of 21st century by Wu and Hellerman. (Hertwig&Rau 2010, 4)

After successful start in aviation market other industries adopted the role of revenue management in their organizations for example hotels, rental cars and freight forwarders. Hertwig and Rau considered air cargo modelling far more complex than in passenger industry, because of shorter time periods based on customer demand and multi-dimensional needs of consignments. In air cargo industry revenue management aims to allocate costs of single flight, route or complete network to obtain profit. Process starts with capacity allocation to recognize and enable free capacity. Afterwards company decides whether engage to long terms contracts or maintain current capacity for other engagements. Air cargo compa-

nies sell their capacity based on reservation but aiming for maximizing their profitability. In air cargo business air plane capacity is key factor and single plane loading is depending on such elements as plane body measurements, air temperature and density, fuel weight or runway surfaces. Forecasting of capacity is crucial to determine level of overbooking and its effect on cancellations or money-back guarantees. Differencing from passenger industry air cargo companies must define profitability on larger scale considering overall business relationship as low customer profitability in one segment doesn't cover total profitability of relationship or network. Forecasting is needed to ensure present consignment cost doesn't effect on future business development on specific lanes for example. (Hertwig&Rau 2010, 4&14-17)

Based on Philips revenue management requires three factors to succeed:

- Strategy
- Tactics
- Discipline

RM's strategy must define specific customer market segment and products or services offered with targeted price. Tactics sets limits and updates for number of products or services sold for customer segments in specific period for example weeks or months. Discipline means control in terms of accepting or rejecting specific customer cases. (Philips 2005, 120-123)

Figure 6. Courier supply chain door to door model (modified Hertwig&Rau 2010,9).

4.2 Pricing and revenue generation

"Pricing is one of the highest return of investments available to a company." (Phillips 2005).

Pricing is one of RM's components to support company's profitable revenue and market share generation. Though pricing is essential for logistics companies to make profitable revenue, there is lack of study data done in in logistics business. Studies focus on the consumers of logistics like supply chain management and their abilities to reduce logistics costs. In general pricing is much more than definition of rate tariffs. It must be pointed out that in logistics several pricing methods are used to maintain profitability of business and support revenue growth for example: cubic conversion factor, fuel surcharge based on oil price changes, handling surcharges, trading performance factors, kick-backs, terms of payment, rate increase, etc.

There are a few key methods to define prices for example: cost based pricing, market pricing, competitor benchmarking, product or service market value-based pricing, strategic pricing or behavioral pricing. Often pricing is related to list price, which is the highest tariff of the company to offer. In most cases, customer will pay so called pocket price after several discounts applied. (Phillips 2005)

Several courier companies use specific lists of surcharges and options to cover unexpected handling costs of shipment such as remote area costs but also to gain more profits. However, the highest cost of logistics business is petroleum as source of transportation energy. Companies use different types of fuel surcharge mechanisms in pricing to control and cover themselves from changes of oil prices. (TNT Express 2017; UPS 2017; FedEx 2017; DHL 2017)

Below figure presents the key elements to support optimization of revenue and profitability according to Philips. Consistent business process supports whole organization involved in pricing process. Sales needs to be engaged to revenue optimization targets while ensuring profitable business development. Market analysis is needed to target segments, where profitable customer relationships

are gained. Critical decisions are done based on quality analysis of business versus prices. Pricing matrix supports

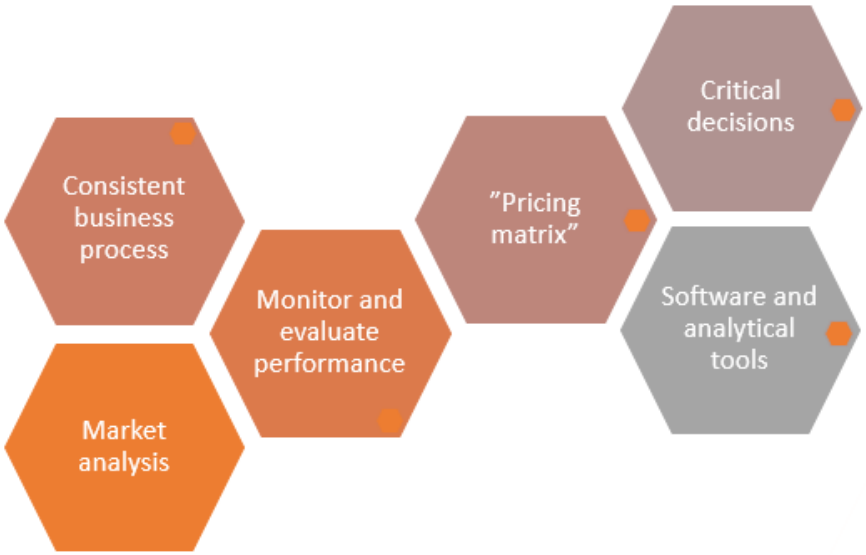

Figure 7. Pricing elements (based on Phillips 2005,29-35).

(Phillips 2005, 29-35)

5 RESEARCH METHODS

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6 CASE STUDY COMPANY

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7 EXISTING CONTRACT PROCESS SYSTEM

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8 CASE STUDY CONCLUSIONS

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