

Business Process Improvement Project

UPS: Air Procurement Process

Meet Our Team of Process Analysts

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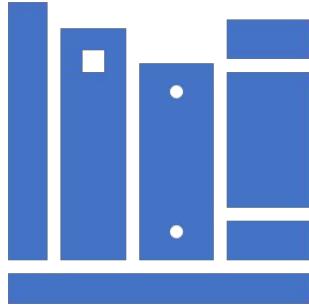


**Addison
Rollins**



**Nivedita
Ganesan**





Identification



Discovery



Analysis



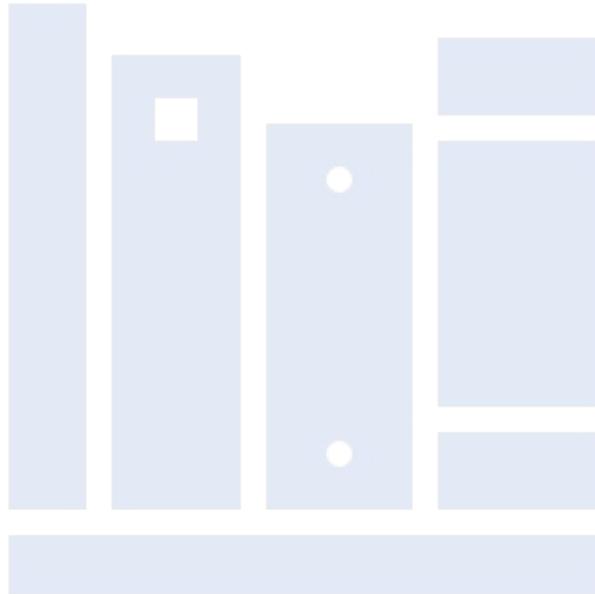
Redesign

Business Process Improvement Phases



Process Identification

*Understanding the strategic
context of UPS*



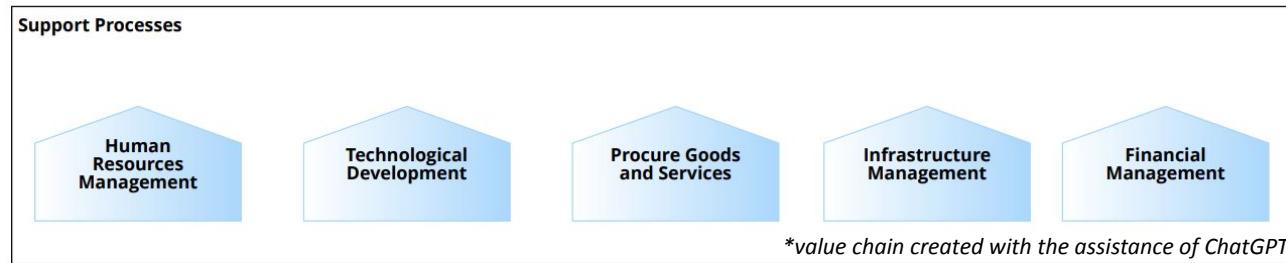
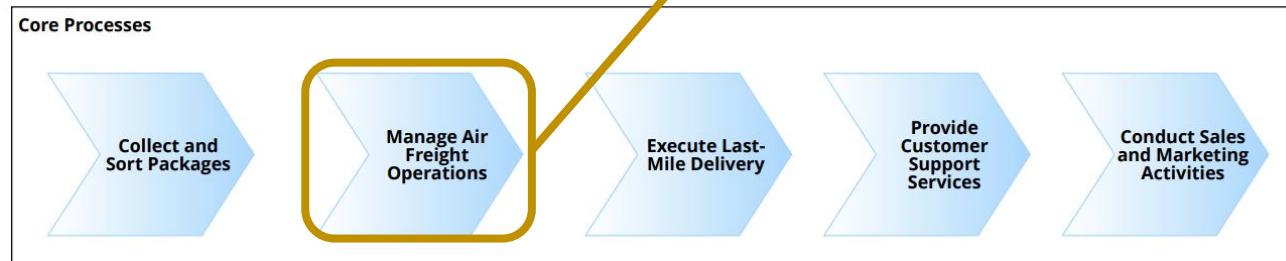
Business Context: UPS

Category	Details
Industry and Institutional Profile	Global leader in transportation & logistics; Specializes in package delivery, supply chain management, & e-commerce
Mission and Vision	Mission: To move our world forward by delivering what matters
Headquarters	Atlanta, Georgia
Global Reach	Operates in over 220 countries and territories
Major Locations (Significant Facilities)	Louisville (KY), Philadelphia (PA), Ontario (CA), Cologne (Germany), Hong Kong
Employees	Over 500,000 employees worldwide
Daily Package Volume	Delivers approximately 24 million packages daily
Fleet	Owns over 100,000 vehicles and more than 500 aircraft
Annual Revenue (2023) & Net Income (2023)	~\$91 billion & ~\$9 billion
Air Transportation Procurement	Involves RFP issuance, bid evaluation, and contract negotiation
Air Procurement Value	Manages approximately \$500 million in vendor contracts
Procurement Focus	Emphasizes vendor accountability, cost control, service quality, and operational efficiency

Value Chain: UPS

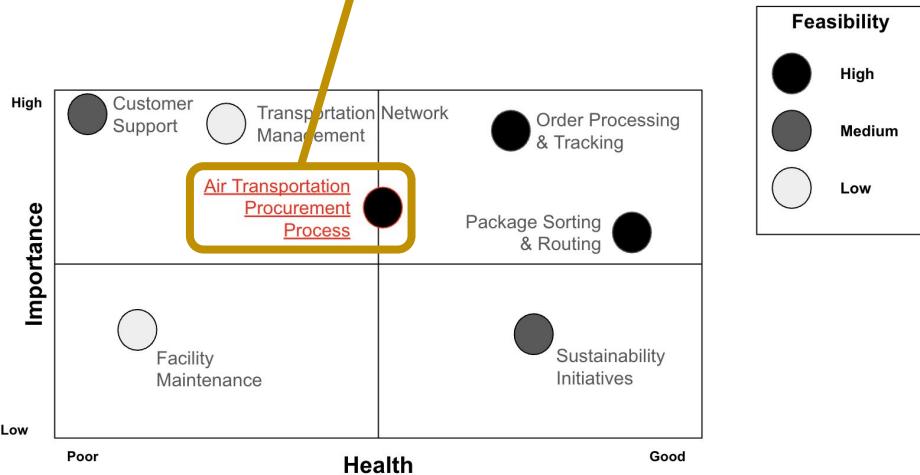


Focus of our Process Improvement project



*value chain created with the assistance of ChatGPT

Process Portfolio: UPS

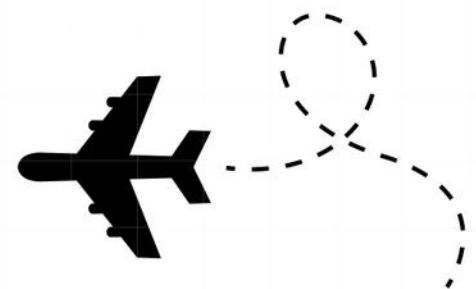


Process Selection & Prioritization:

After categorizing processes based on their importance, health, and feasibility, we selected and prioritized the following process:

Air Transportation Procurement Process

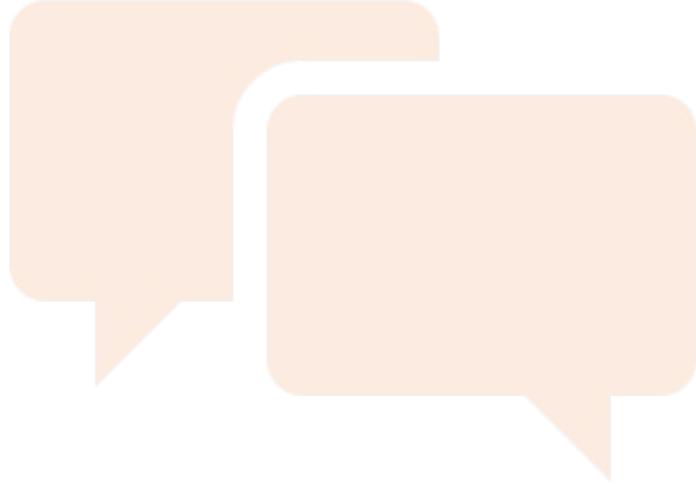
This process has **high importance**, modest health, and **high feasibility** for improvement through redesign.





Process Discovery

*Gathering and documenting
information about the “As-Is”
process*



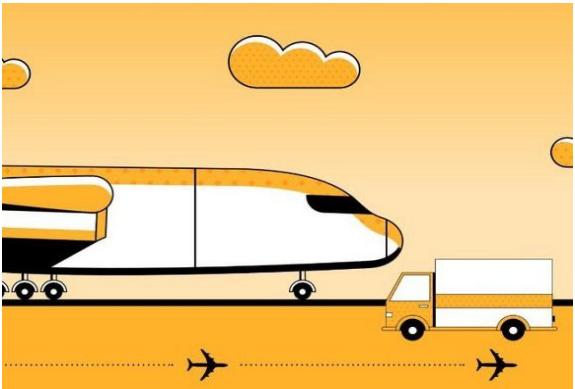
Summary of Methods & Data Sources

Method	Sources
Interview	<ul style="list-style-type: none">Conducted with Dustin Teverbaugh (Director of Air Transportation Procurement at UPS)Role: Process Owner and Domain ExpertKey Insights: Procurement workflow, challenges (e.g., employee retention), metrics, and vendor management.
Web Pages/External Resources	<ul style="list-style-type: none">Research RFP best practices (ex: McKinsey consulting frameworks like McKinsey 7-S Model, MECE principle, and the GE-McKinsey Matrix)Bureau of Labor Statistics (BLS)Indeed/LinkedIn Salary InsightsIndustry reports on Air freight procurement
Documents	<ul style="list-style-type: none">Sample Cost ModelInternal RFP (Request for Pricing) Templates

Interview Details

Method	Sources
Total Number of Interviews	2 interview by 3 process analysts <ul style="list-style-type: none">Dustin Terverbaugh (<i>process owner</i>)
Medium	2 virtual interviews
Average Duration of Interviews	45 minutes – 1 hour
Transcripts and Notes	<ul style="list-style-type: none">One interview was not recorded and the second interviews was recorded and auto-transcribed.Detailed notes were taken by interviewers (process analysts).Transcripts and notes were summarized and analyzed by process analysts with the assistance of generative AI tools (ChatGPT).

As-Is Process Profile: Air Procurement



Process Profile:

Name of Process: Vendor Selection Process (UPS Air Transportation Procurement)

Vision: To optimize the procurement of air transportation services by improving contract management, vendor performance, and employee retention, ensuring cost-effective and efficient logistics.

Process Owner: Dustin Teverbaugh - UPS Director, Lead Negotiator in Corporate Procurement

Customer of Process: Vendor (ex: Quantum Aviation)

Expectation of Customer:

- Reliable and timely air transportation services
- Cost-efficient contracts with vendors
- Minimal disruptions in logistics operations
- High vendor performance standards

Outcome:

- Contract Execution (Operational Need Satisfied)

Trigger:

- Operational Need Identified

First Activity: Identifying air transportation needs (Identify Service Requirements)

Activities in Between:

- Issue Request for Pricing (RFP)
- Receive Vendor Bids
- Perform Vendor Evaluation and Selection
- Negotiate Contract Terms
- Sign Contract

Last Activity:

- Finalizing contracts with selected vendors and integrating them into UPS operations

Interfaces inbound:

- Uses a cost modeling spreadsheet and platforms like LinkedIn and Indeed to assess vendor options and market conditions.
- Triggered by operational needs such as new gateway openings, contract expirations, or renewals.
- Receives vendor bids in response to RFPs; submission methods may vary by vendor.

Interfaces outbound:

- Contract agreements with selected vendors
- Vendor performance tracking systems
- Logistics and supply chain teams for operational execution

Required Resources: Procurement team (including negotiators like process owner), RFP management tools, Cost modeling and market analysis systems, vendor research tools

Process Performance Measures: Vendor performance metrics, employee retention rates, contract approval cycle, procurement cycle time.

As-Is Process Description: New Air Gateway Procurement



The **New Air Gateway Procurement process** begins when an operational need is identified, such as the opening of a new gateway requiring vendor services for air transportation support. At this point, the Corporate Procurement team defines the service requirements and issues a **Request for Pricing (RFP)** to potential vendors. Vendors respond with bids, which are collected for evaluation.



Once bids are received, the procurement team performs a **vendor evaluation and selection process**, including bid comparison and internal cost modeling to determine the most competitive and capable vendor. After selecting a preferred vendor, the contract **negotiation phase** begins, where terms are reviewed, and any necessary changes are communicated between the procurement team and the vendor until both parties agree and the contract is finalized.

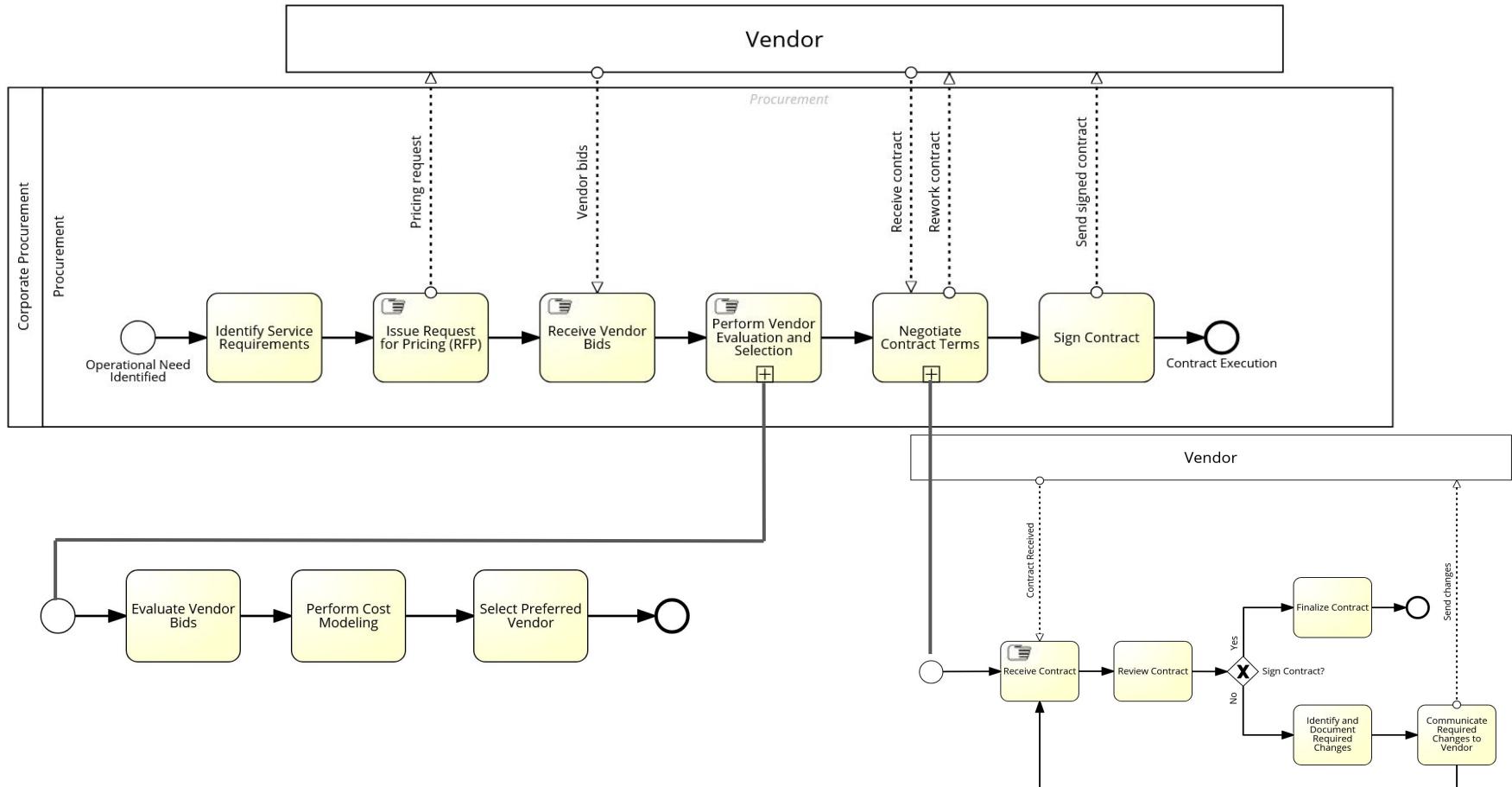


If the vendor does not approve the initial terms, the procurement team identifies and documents the requested changes. These updates are sent back to the vendor for further review. This **exchange can loop back and forth**—with revisions and clarifications—until both parties are satisfied with the terms. Once the contract is approved, the vendor signs it and final confirmation is sent.



Finally, the signed contract is executed with formal contract execution, which officially onboards the vendor into UPS operations for the new air gateway. This ensures that the selected vendor is ready to support air transportation needs, contributing to efficient logistics, reliable performance, and successful gateway activation.

New Air Gateway Procurement: As-Is

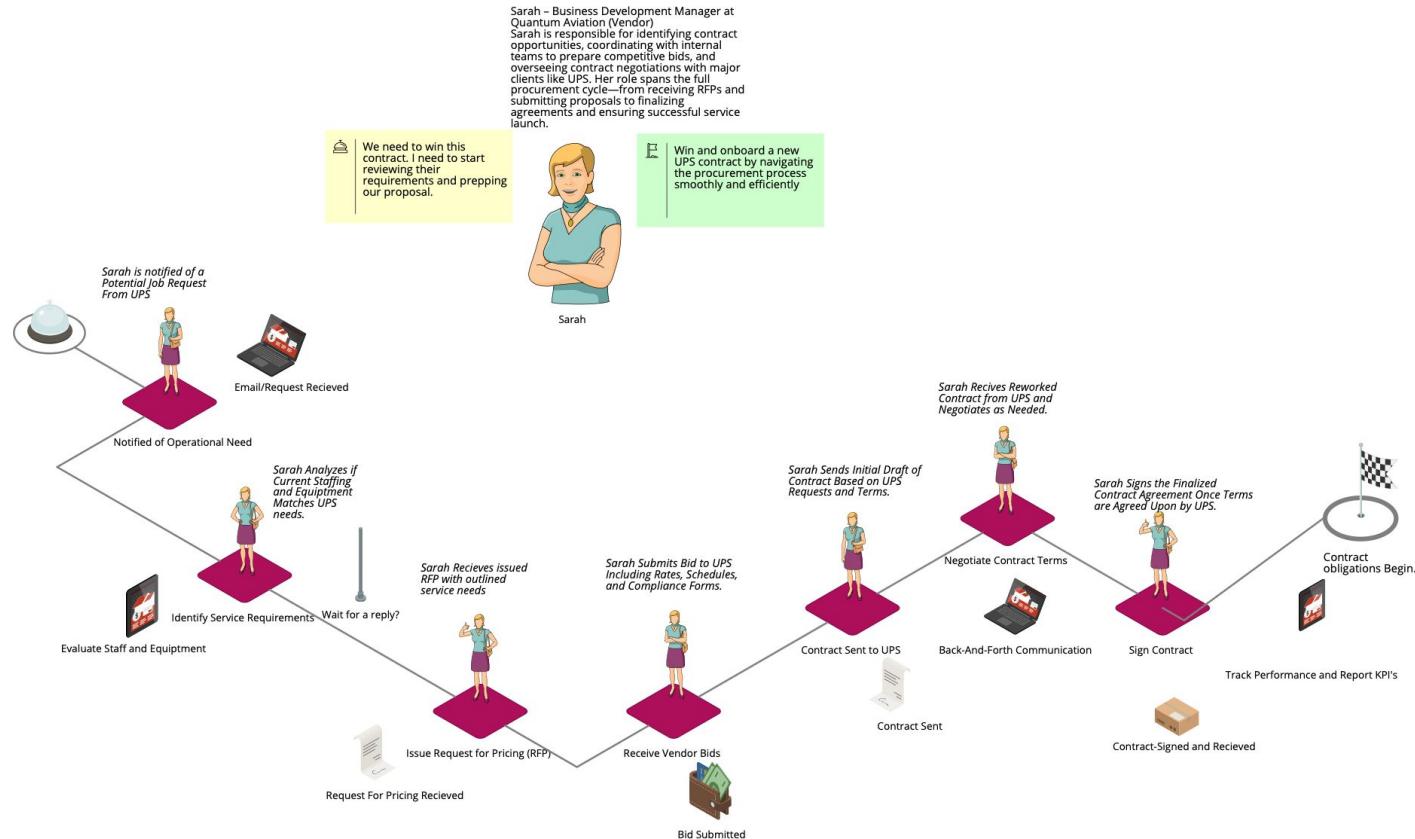


As-Is Journey Map: Vendor Perspective

The redesign of the “Vendor Evaluation and Onboarding” process improves clarity and communication between vendors and UPS throughout the procurement cycle.

By streamlining contract negotiations and creating more structured back-and-forth communication, process owners can reduce turnaround times and eliminate bottlenecks—allowing vendors to submit proposals and receive feedback faster.

As a result, vendors can more efficiently navigate RFPs, align service capabilities, and begin fulfilling contract obligations with greater confidence and fewer delays.





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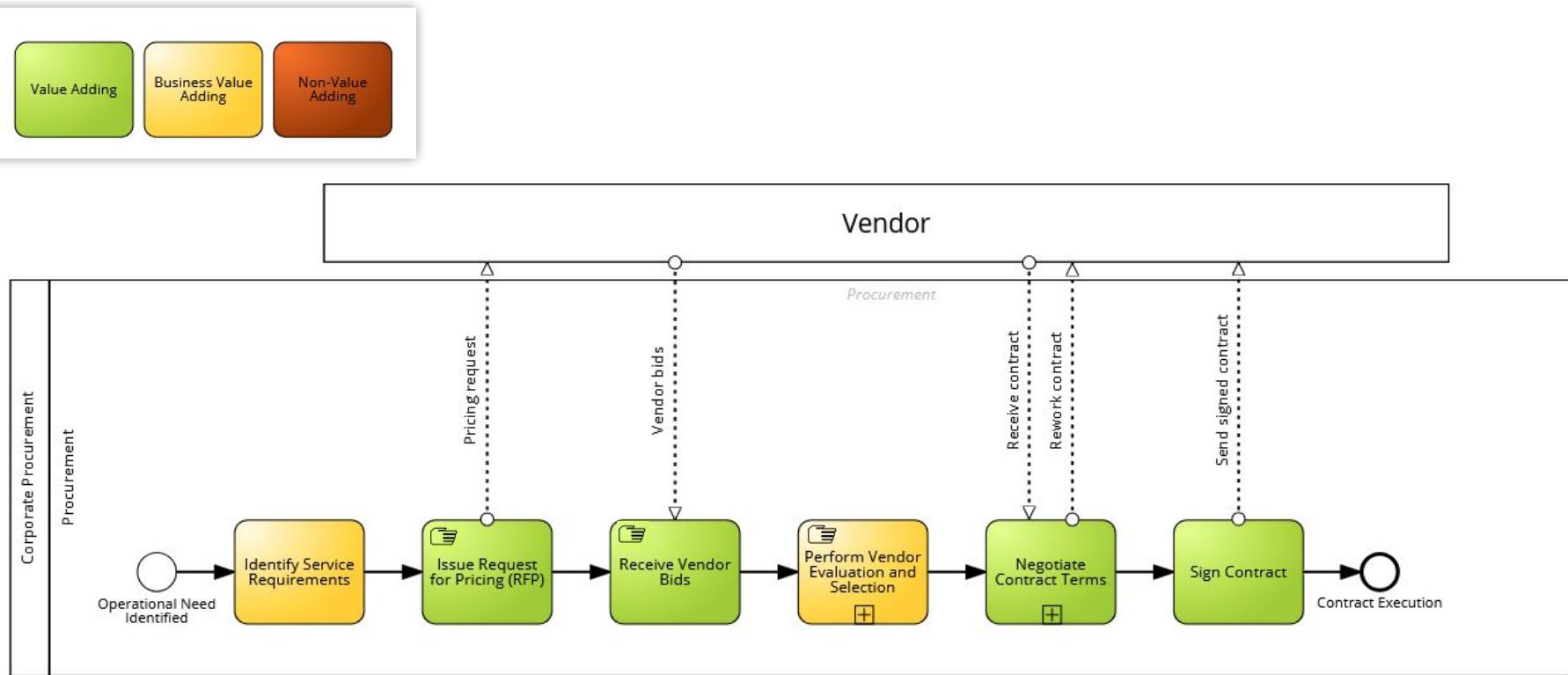


Process Analysis

*Identifying issues in the “As-Is” process
using qualitative and quantitative
analysis*



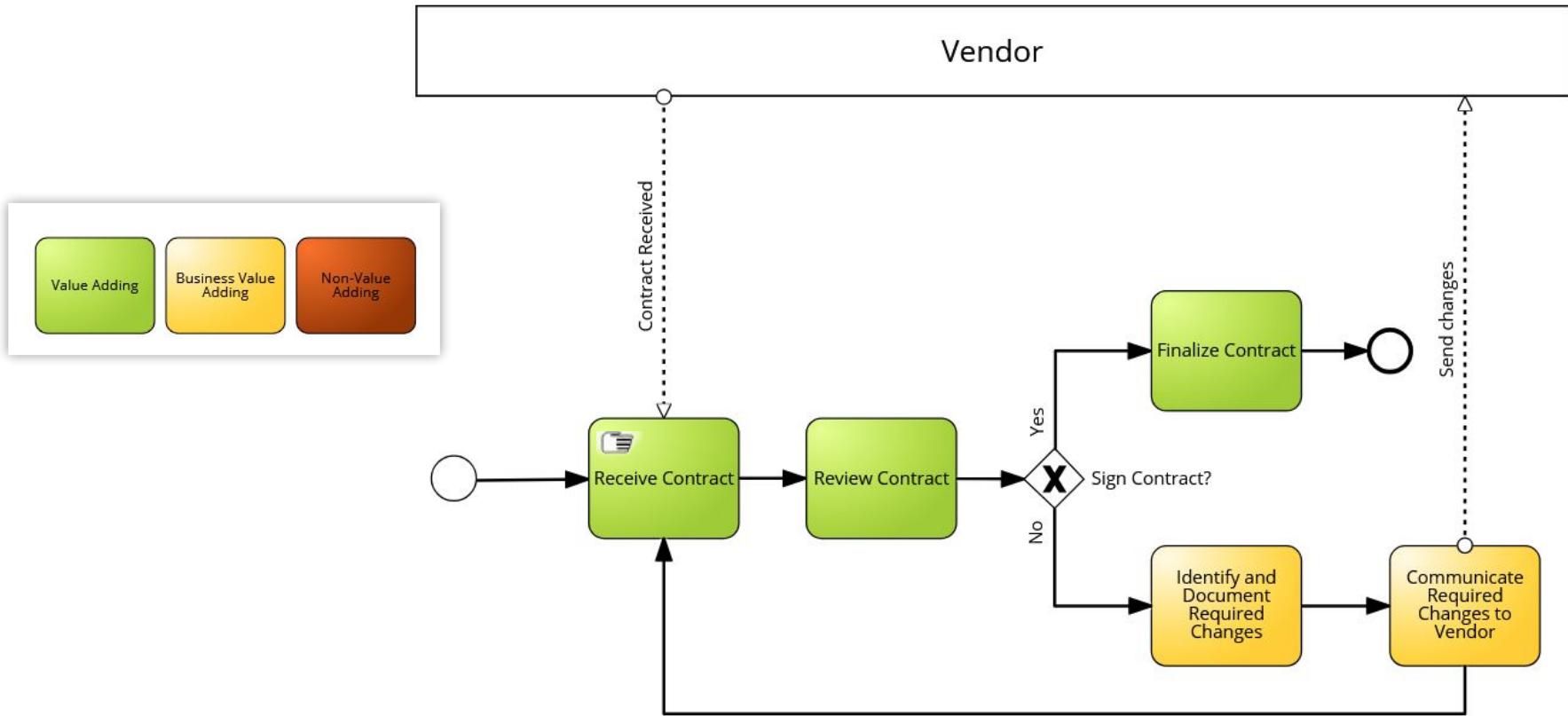
Qualitative Analysis: As-Is Value-Added Analysis



Qualitative Analysis: As-Is Value-Added Analysis



Qualitative Analysis: As-Is Value-Added Analysis



Qualitative Analysis: Findings

Value-Adding

The value adding activities for this process seem to be centered around vendor evaluation, negotiation, and final contracting. These seem to have the largest impact on customer satisfaction and service delivery.

Business Value-Adding

Although they don't directly impact the customer, activities such as "Perform Vendor Evaluation and Selection" are crucial in facilitating and supporting the service delivery.

Non Value-Adding

We didn't find any Non-Value adding activities in this process but there are still other areas in the process we can look at to improve the current model.

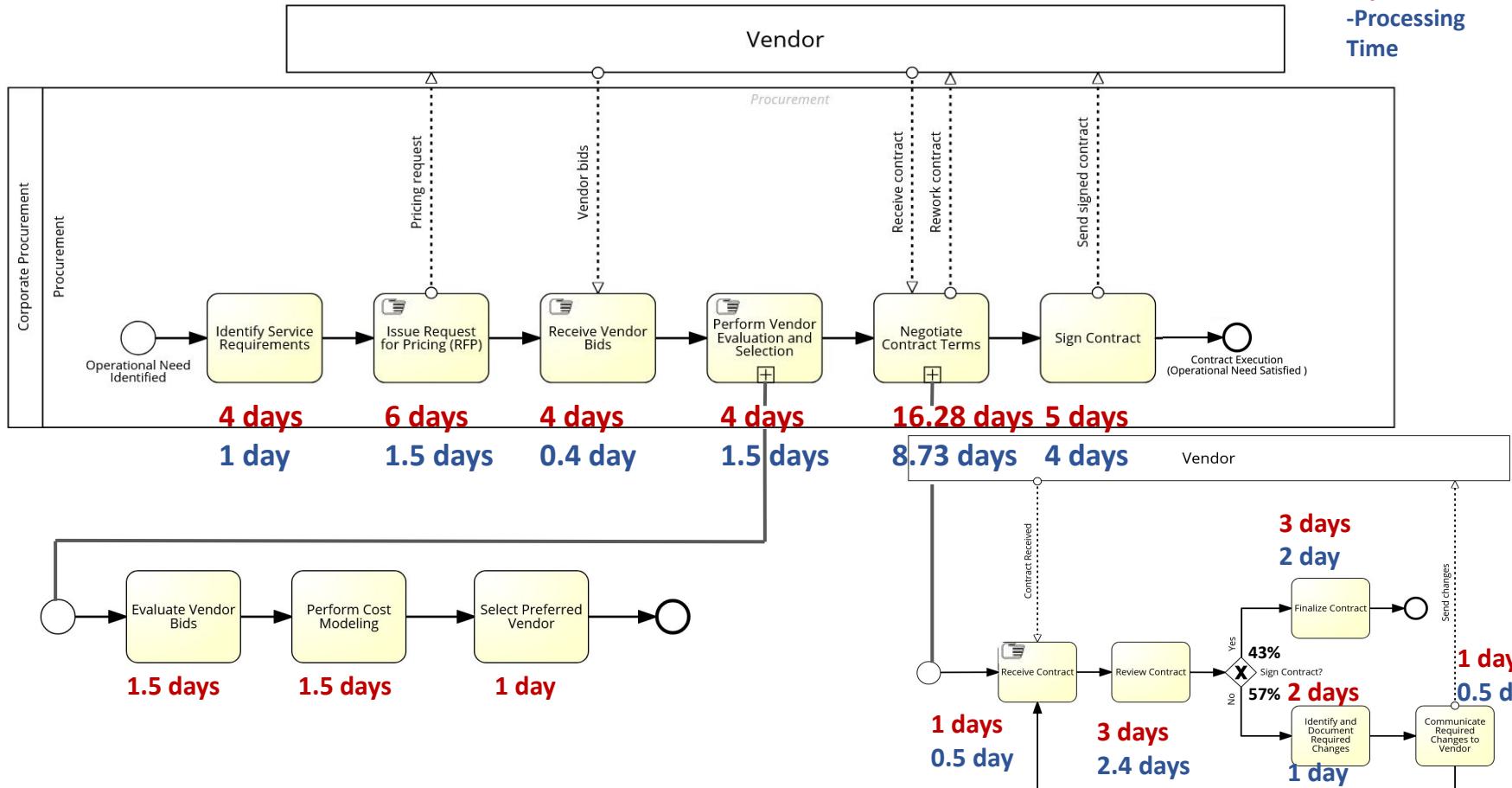
Quantitative Analysis: As-Is Cycle Time Analysis

Key:

-Cycle Time

-Processing Time

Time



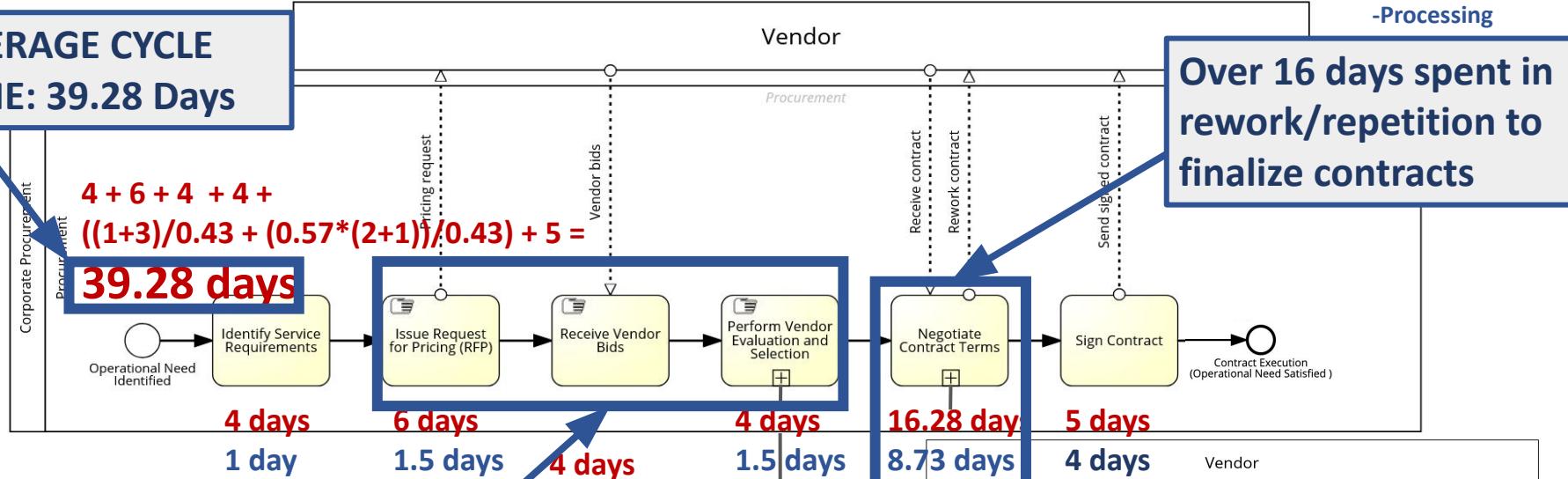
Quantitative Analysis: As-Is Cycle Time Analysis

Key:

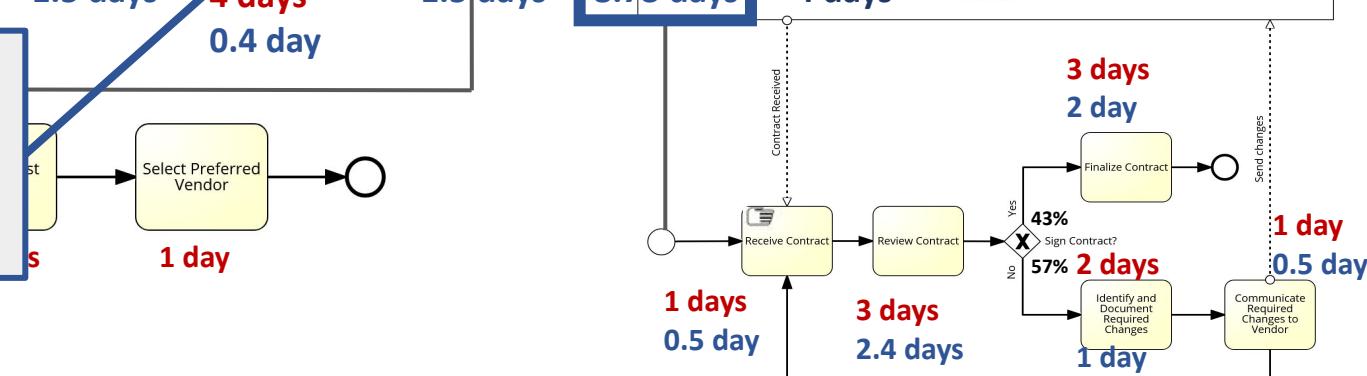
-Cycle Time

-Processing

AVERAGE CYCLE
TIME: 39.28 Days



Nearly 14 days spent in trying to select a suitable vendor when processing time is only 3.4 days





As-Is Process Issues: Summary of Findings

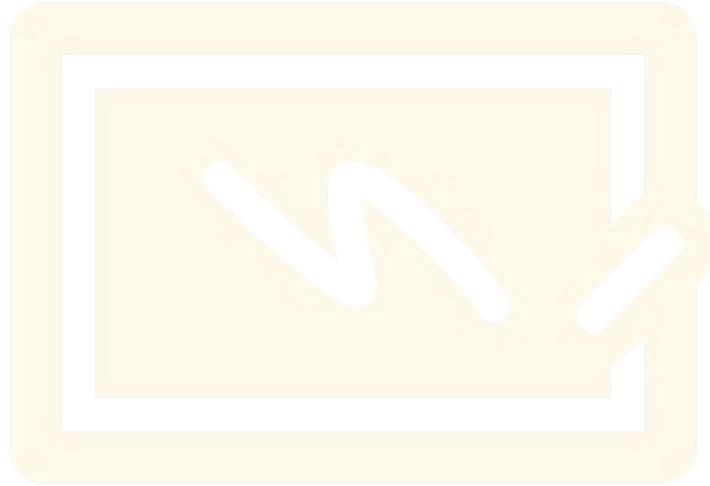
- Most activities in the **As-Is Process** are **Business-Value-Adding (BVA)**, leaving some room for improvement.
- Nearly 14 days spent in trying to select a suitable vendor
- Biggest disparity is in the negotiation contract activity where the cycle time is nearly double that of the processing time
 - A minimum of 10 additional days is required if there is contract rework
 - **Why?** Wording is unclear, legal team hasn't signed off before sent out, negotiations in pricing and making quick, last-minute tweaks to the template.
- **Process Cycle Efficiency:** $\approx 43.6\%$
 - Only about half of elapsed time is spent on truly value-adding work.





Process Redesign

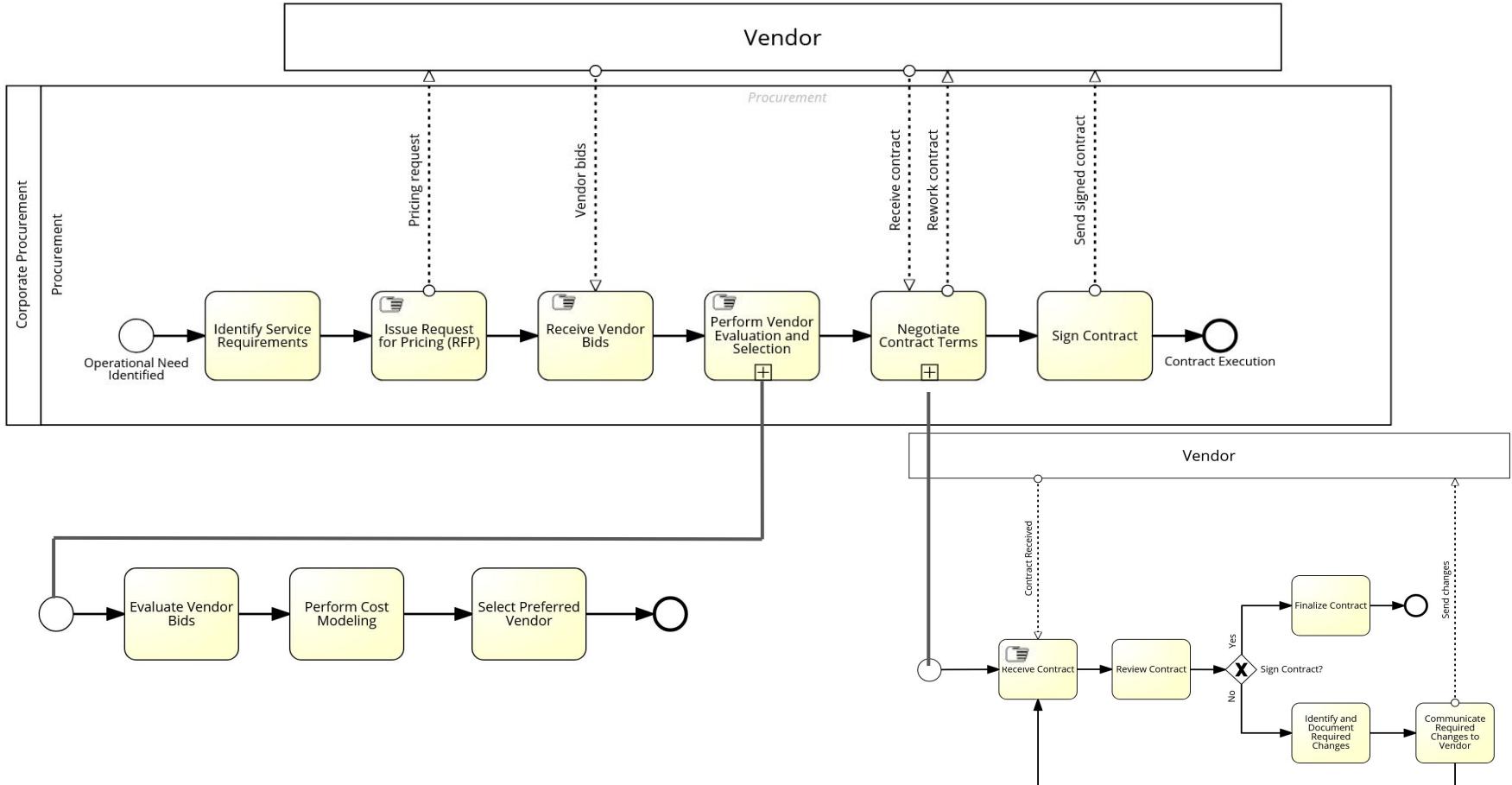
*Creating a “To-Be” process
improving the “As-Is” process*



Process Redesign: To-Be Process Improvements

AS-IS PROCESS	TO-BE PROCESS	REDESIGN HEURISTIC
Manual Vendor Selection and Evaluation: Process owner manually evaluates and selects what he believes is the best vendor, which is time consuming	Automated Vendor Selection and Evaluation: AI-powered tool (and using McKinsey 4.0 procurement report) is used to automatically score vendor bids, flag overpriced offers, and suggest optimal vendors.	<ul style="list-style-type: none">Technology
Manual Contract Negotiation: The negotiation process for contracts is lengthy and often requires multiple revisions between the vendor and UPS.	Streamlined Contract Negotiation: The Negotiate Contract Terms activity has been shortened with the use of pre-approved contract templates, reducing rework and speeding up negotiations	<ul style="list-style-type: none">Standardization

As-Is Process: Before Improvements



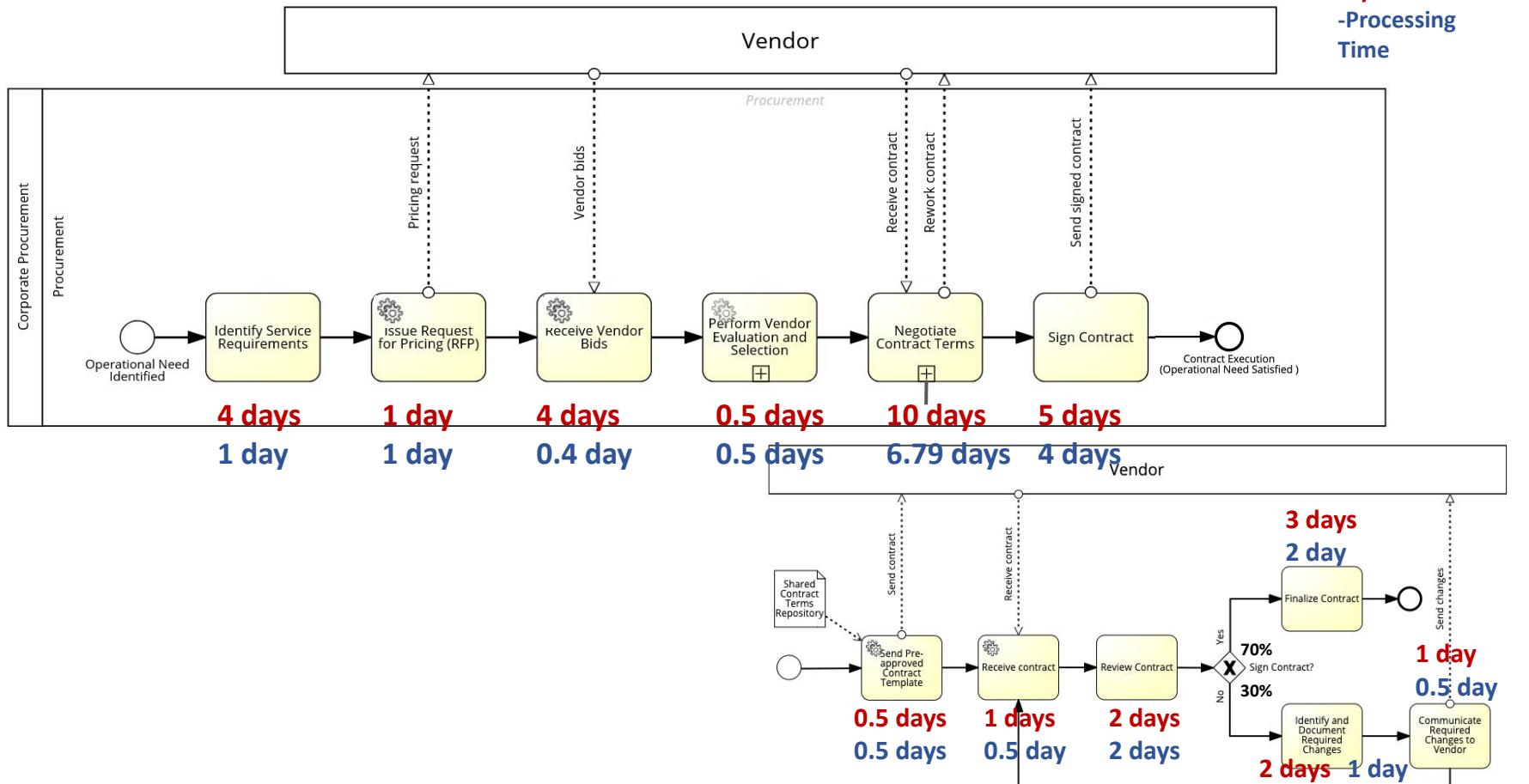
To-Be Process: After Improvements

Key:

-Cycle Time

-Processing Time

Procurement



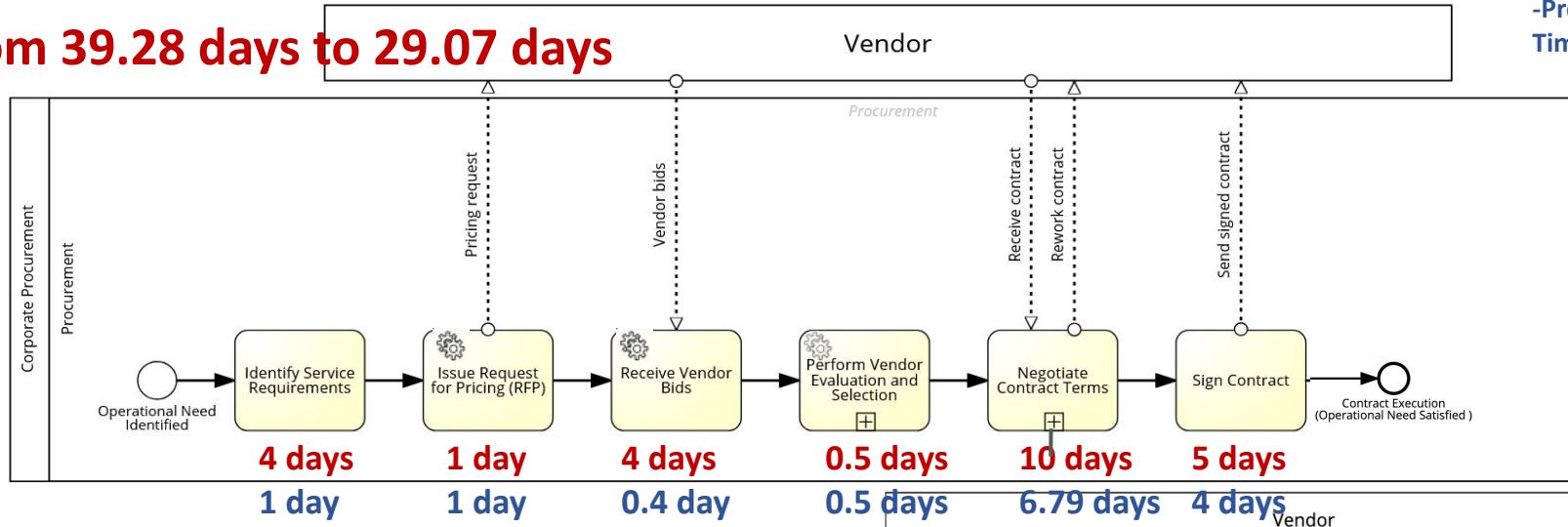
To-Be Process: After Improvements

Key:

-Cycle Time

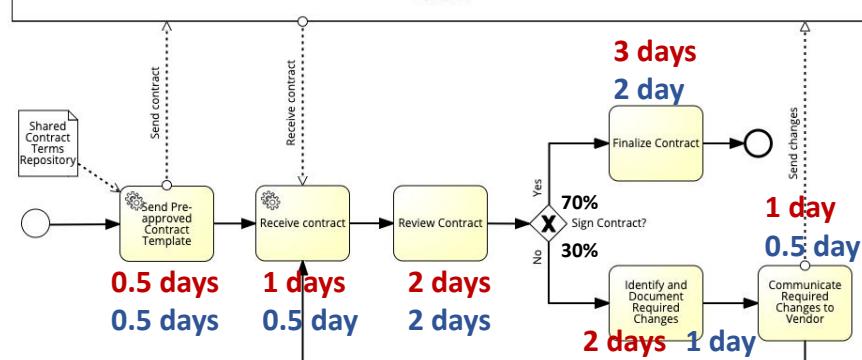
-Processing Time

from 39.28 days to 29.07 days



$$4 + 6 + 4 + 4 + 0.5 + ((1+2)/0.7 + (0.3*(2+1))/0.7) + 5 =$$

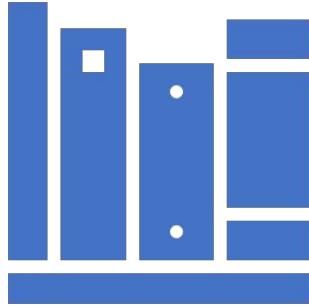
29.07 days



To-Be Process: Summary of Improvements

- Implementation of an **Automated Vendor Selection and Evaluation along with other activities becoming automated**
- Elimination of one subprocess
- Reduced probability of **rework/repetition** to 30% (was 57%!)
- **Reduced cycle time:** from **39.28 Days** days to **29.07 days** (OVER A WEEK!!)





Supplement: Creative Redesign

Creative Redesigns to Enhance Vendor Relationships

While these ideas fall outside the bounds of the procurement process, UPS can implement several creative redesigns that would positively impact its relationships with vendors. These initiatives focus on improving the working conditions and overall experience of vendor employees, fostering stronger collaboration and efficiency.

- **Providing Gear and Equipment**
 - Offering protective gear, especially in high-risk environments, can significantly reduce physical strain on vendor staff. Not only would this align with safety regulations, but it would also improve overall health and safety outcomes—helping to lower the number of workplace accidents and injuries.
- **Co-Branded Gear:**
 - Supplying gear that features both UPS and vendor logos could promote a stronger sense of unity and partnership. This collaborative approach can help vendor ramp agents feel more integrated into UPS operations while also reinforcing the UPS brand.
- **Shuttle Program for Vendor Employees**
 - Implementing a shuttle service could help address transportation challenges, particularly for vendors at remote or hard-to-access gateway locations. This would likely reduce absenteeism and employee turnover by making commutes easier and more reliable.
 - Additionally, shuttles could improve overall efficiency by saving time—especially in large airport environments where employees may need to move across multiple runways or terminals.



Creative Redesigns to Enhance Vendor Relationships

Continued

- **Training and Development Support:**
 - UPS could offer training programs to help vendor staff improve essential skills such as ramp operations, equipment handling, and safety protocols. This would not only enhance the quality of service but also foster a stronger sense of loyalty. When vendors see that UPS is investing in their teams, it can lead to better retention and a more collaborative working relationship.
 - Additionally, providing access to optional certification programs or professional development workshops could add value for both vendors and their employees, making them feel more connected to UPS's standards and culture
- **Performance-Based Incentives**
 - Introducing performance-based incentives for vendors who meet key operational metrics—such as on-time performance or service quality—could drive improved outcomes. These incentives would reward high performance, encourage cost efficiency, and align vendor goals more closely with UPS's expectations.
- **Workforce Wellbeing**
 - Supporting vendor workforce wellbeing through optional employee perks or wellness programs could improve job satisfaction and morale. By promoting a culture that values people, UPS can help reduce vendor turnover and build stronger, longer-lasting partnerships.

