



LOGISTICS STRATEGIES

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Greetings

Here we are in another month, and that means another fresh edition of LOGISTICS STRATEGIES is ready for your review.

As always, we highlight practical strategies from industry experts - suggestions, recommendations, and tips that are designed to fit into your day-to-day operations.

We warmly welcome your feedback, and invite you to share this edition of LOGISTICS STRATEGIES with your colleagues and contacts.

We hope you enjoy this issue.

REDUCING INBOUND TRANSPORTATION COSTS

Inbound transportation costs have often been referred to as "the last frontier" in transportation cost control initiatives. The reason, most shippers do not have a handle on their inbound transportation costs and really do not know where to begin to track those costs.

One of the main reasons is that various departments within the corporate structure have their hands in the inbound freight expense pie and therefore, there is no coordinated effort to make improvements. After all, if I am not responsible for the costs, why should I care? As ridiculous as this statement is, we can tell you from experience that many companies fall into this same trap. At the very least, the corporate finance group should have a handle of these costs and benchmark them internally as well as against external competitive standards.

So where does a company begin to get its arms around these inbound costs? Here are some thoughts:

1. Understand which departments are generating these expenses.

Is it the corporate purchasing department, the manufacturing production department, or the supply chain group, or any combination of the above? Each department will have their own reasons for spending beyond its means, but all departments should have one single goal. That goal is to avoid raw material stock outs, to oversee and optimize supply chain objectives, and to optimize purchase order size, control inventories, price, delivery requirements and availability.

2. Identify "Real" costs.

In other words, where are these expenses housed? Are the charges prepaid and added to merchandise invoices; are inbound shipments totally

prepaid by the vendor, so the freight costs are "hidden" in the product cost; are there any hidden fees and discounts that the buyer is not taking advantage of; are there any volume discounts that are also not being taken advantage of; are there any "off bill" discounts the supplier is reaping benefits from, but not passing the incentives on to the buyer?

3. Analyze the five key areas of concern.

A. What are the freight terms? Are the terms advantageous to the buyer? If not, can the terms be changed to create a better deal?

B. Which party is handling the freight rate negotiations? Is that party qualified to handle the negotiations? If not, what can be done to change the negotiator?

C. Has the buyer created formal routing instructions to ensure the best possible service at the least possible cost?

D. If routing instructions have been created, what are the routing compliance requirements and penalties for non-compliance?

E. And finally, what programs, if any are in place to control premium transportation expenses?

4. Analyze supplier profiles.

How was the supplier selected? Where does the supplier ship from? Does the buyer have options as to which facility the supplier ships from? What are the purchase order terms? Remember, freight terms and purchase terms are two separate and distinct items. A buyer must be knowledgeable and savvy in both areas. What are the payment terms? What will the order frequency be and which party controls the frequency? Which party is responsible for routing the shipments?

5. Communicate for success.

Communicate with suppliers via concise purchase order instructions, routing instructions, routing violation reports and charge-backs if necessary to ensure compliance. Communicate with the freight carriers via transportation contracts that clearly spell out the rules of the game. Communicate with the internal customer through regular meetings and reports to show the value of controlling inbound transportation services and costs.

6. Be creative; do not accept the status quo.

A. Include the impact of transportation/logistics on lowest delivered cost in sourcing globally. B. Verify that the suppliers are not making big profits on transportation. C. Verify product classifications and shipment weights on supplier shipments. Don't assume they are correct. D. Establish routing guides and constantly monitor compliance. E. Clearly define delivered performance requirements and obligations. F. Constantly review terms of sales and freight terms with all suppliers. Make changes when necessary to achieve lower costs. G. Request "dual" price quotes on purchased materials - FOB factory and FOB delivered. Are there any "padded" freight expenses involved? H. Constantly review supplier source locations for lower freight cost opportunities. I. Review back-haul opportunities to enhance procurement initiatives. J. Analyze potential assembly and consolidation opportunities. K. Constantly monitor and report on the use of premium transportation costs. Set zero tolerance levels wherever possible. L. Establish sound purchasing terms of sale and freight terms. Modify terms when necessary.

At the end of the day, the buyer needs to assure its corporate

management that everything possible has been done to control inbound transportation costs while maintaining a consistent network of suppliers to meet corporate business goals. This can only be done through a coordinated effort of all groups involved in inbound transportation costs.

MOTOR CARRIER PRICING - MORE LOGIC MUST PREVAIL

Current market conditions indicate a soft market for motor carriers with excess capacity - what we in the trade call "A Buyer's Market." When you consider that most motor carriers operate on pennies on the dollar, one has to ask - How low can the rate go?

Many carriers have costing models that tell them what the breakeven point is and what discount levels can make or break a deal. With all this technology, however, we still witness motor carriers offering pricing levels that defy logic just to get the business.

We have noticed, however, that more motor carriers are asking more of the right questions of their shipper customers before increasing discounts, or attempting to take freight away from a competitor. These questions, the answers to which are vital to the carrier's profitability, must be asked prior to implementation of pricing, and if the results do not allow for a profitable operation, the carrier should walk away from the business and allow his competitor to handle it. For too long now the motor carrier industry has priced on market share and not on profitability. The reality is, especially for those carriers which are public corporations, the board of directors are looking for black ink on the bottom line and not red.

So what are some of the issues that the carriers need to concern themselves with when analyzing pricing requests? Here are some examples of information that must be forthcoming from the shipper before the carrier can actually establish pricing.

- Freight-all-kinds (FAK) classification ratings:

This is a major issue in today's very competitive motor carrier pricing environment. Most shippers want FAK rates to simplify the audit and payment of their freight bills. The motor carriers on the other hand, while not totally against freight-all-kinds ratings must consider the level at which the FAK rate is established. What percentage of the shipper's actual business falls within a given class? Not only that, what is the weighted average of the commodities being shipped? Freight-all-kinds ratings which allow for a range of classes are much more equitable to both parties. For some shippers it is relatively simple They ship product within one or two classes and the spread is within that same one to two class range. On the other hand, there are shippers that have products ranging from class 70 to perhaps class 250 for which an FAK rating at a single class makes no sense at all.

The publication of an FAK rating will provide the shipper in many instances with a "hidden discount." While this may be true, the opposite may apply depending upon the study performed by the carrier. FAK ratings will become more popular as time goes on, but logic must prevail in the establishment of the range of FAK rates that are equitable to both shipper and carrier.

- Palletized, or unitized shipments:

Shippers that ship unitized loads not only reduce the handling of the

product internally, but also provide the carrier with a means to reduce the labor intensive costs of handling individual cartons. While this is true in theory, there are several other issues that come into play here. Are the pallets double stackable? If they are not, then the carrier may be losing valuable cube in the trailer to place additional freight. Many pallet loads we have seen indicate do not double stack and also are uneven at the top which does not allow for proper stacking of light and bulky freight to fill up the cube of the trailer.

Unitized or palletized loads certainly have their benefit, however, shipments which do not afford the carrier to double stack, or load additional freight on top, will not reduce its costs but perhaps increase them.

- Percent of appointment deliveries:

Here is a question that almost never gets asked of the shipper. What percentage of the shipper's business requires appointment deliveries, which will increase the carrier's cost as the shipments must be held to clear a delivery appointment? In most cases, the motor carriers charge for a call before delivery, however, the fee paid by the shipper may not compensate the carrier completely for the service provided.

We are familiar with several shippers that utilize the motor carrier as a warehouse. In this case product is left on trailers that the carrier cannot use to pickup additional freight, or worse yet, the trailers are utilized to "cherry-pick" orders that the shipper requires from day-to-day. On the other hand, appointment deliveries should make the carrier operate more efficiently, as it is not tendering freight which may ultimately be refused. Refused freight causes problems for everyone concerned-shipper-consignee-carrier.

- Claims experience:

Again here is a question that we almost never hear being asked of the shipper, (even if the shipper were to give the proper response). This is a tricky one in that a shipper's claims experience with carrier A might be completely different than it will experience with carrier B. The real question, however, is how are the goods packed? Has the carrier had an opportunity to physically see the freight to satisfy its needs that it will withstand the normal hazards of transportation, and so on?

While everyone strives for zero claims, it is a goal that will never be attained. However, the carriers must have a good understanding of the product to be handled before they can commit to any level of pricing.

- Business commitment:

While the provisions for motor carrier contracts have changed with the ICC Termination Act of 1995, we firmly believe that a commitment should be forthcoming from the shipper to the carrier to handle a certain percentage of business in numbers of shipments, or revenue per month. This is an area that the shippers, as a whole, still have a difficult time with. We hear very often of shippers not wanting to commit to a certain volume of traffic with a freight carrier because they feel they are "locked-in." In our view, the opposite is true. We believe that motor carriers that have a firm business relationship with a shipper will do more for that shipper than they will for an occasional shipper that utilizes many different carriers. In some cases shippers tender freight to motor carriers, not based on rates, but based on level of service received-What a novel idea!

- What is the rate?

Many people will find this hard to believe, but most carriers work off different base rates. Therefore, a 50% discount with carrier A might not

produce the same net rate as a 50% discount with carrier B. The main concern of shippers should be-what is the bottom line rate that I'm paying for the movement of my shipment? The shipper should not be lulled into a false sense of security thinking that they have very favorable rates with motor carriers publishing discounts in the 60% to 80% range today. Some motor carriers publish higher base rates to shippers that don't want to pay accessorial charges. The carriers, on the other hand, should not be offering discounts in the 60% to 80% range to shippers that don't meet lane and balance requirements, prompt payment of freight bills within the prescribed credit periods, reasonable claims ratios and the commitment to work with the carrier to help reduce its costs, thereby reducing the shipper's cost to transport products. Fortunately, as we stated earlier, we are seeing more logic put into the pricing requests by the motor carrier industry than ever before. It's not utopia, but we are on our way.

ICC BRINGS ITS EXPERTISE TO IFTLC

The International Furniture Transportation and Logistics Council's 47th Annual Conference will feature Tony Nuzio and Russ Matthews from ICC Logistics as guest presenters as part of their conference.

The focus of Tony and Russ' presentation to this very impressive group is "Transportation Contracts That Benefit Both Shippers and Carriers."

In the world of transportation contracts, often times one party clearly seeks to take advantage of the other part and often does. This lively presentation by two industry experts on transportation contracts will show the shippers and carriers in attendance that both parties can win when there is mutual respect and understanding of each other's needs.

The conference will be held the week of April 30th at Lago Mar Resort and Club in Ft. Lauderdale, Florida.