



LOGISTICS STRATEGIES

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IS THERE A NEW LTL PRICING SYSTEM ON THE HORIZON?

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DON'T MISS WAREHOUSE MANAGEMENT EXPO - 2008

MARK YOUR CALENDAR! MARK YOUR CALENDAR!

IS THERE A NEW LTL PRICING SYSTEM ON THE HORIZON?

For those of us who have been in the transportation and logistics industry for any period of time now, we are all very familiar, (at least we should be) with the National Motor Freight Classification. It is a publication that provides for a classification rating for every product shipped via motor carrier throughout the United States. The NMFC provides for ratings based on the shipping characteristics of the tens of thousands of products being shipped every day.

Under its present structure, the freight classification is based on the actual value of the commodity being shipped, the ease and/or difficulty of loading and unloading the product, as well as how easily the product stows when it is being shipped. Add to that the physical space the product takes up in a vehicle, including the product density and packaging, and you now get the elements the freight carriers use to assign a freight classification. This classification is then used to ultimately determine what the actual freight rates will be. It is important to point out that the parties who decide these factors are the freight carriers themselves.

There is a movement going on around the country by independent parties that many believe will change for good how products are classified for freight rating purposes. That process is being referred to as Cube Based Pricing. The theory behind this movement is that the main characteristic for transporting goods is how much space the goods take up on a carriers' vehicle. The issue of value has been greatly diminished over the years as carriers begin to walk away from Full Value Liability through various pricing provisions in their agreements with shippers.

There are many freight carriers that have shown a keen interest in the Cube Based Pricing Model. The fact is, a number of these freight carriers have already started developing their own Cube Based Pricing Systems. Some experts predict that shippers will save an average of 8 to 10 percent on their shipping costs if these pricing provisions are implemented. Now that is a BOLD prediction. While it may be true for certain shippers that have very dense products, we can assure you, the shippers of light and bulky products will not be as fortunate.

It is important to point out this pricing system is not being designed for

all commodities being shipped. For example, Flag Poles, Ladders and Hazardous Materials shipments carry unique shipping characteristics. The carriers will certainly have to adjust pricing on these types of commodities to compensate them for their costs of transporting these unique goods. In the early stages of development, these pricing provisions are geared only for palletized shipments weighing less than 500 pounds. The reason is the carriers state that approximately 85% of the shipments they now receive are palletized. Out of that number, 65% of those shipments weigh less than 500 pounds. That is a significant volume of freight that can be covered by this new pricing model.

But, is this really a new pricing concept? Over the past few years, many freight carriers have introduced pallet rates and linear foot rates. These rates are geared to the very shippers the Cube Based Pricing proponents are trying to attract. Add to this the availability of new Logistics Trailers which provide a second deck in the trailer which now allows shippers to load on two separate surfaces without double stacking pallets, and you have some very attractive pricing alternatives available. There are additional factors that will have a cost effect on the actual products being shipped. Here are some examples:

- Is the pallet stackable, or non-stackable?
- The day of the week the shipment is made. It appears that Wednesday is the best day for these types of shipments which would equate to the lowest rates.
- The actual weight of the shipment. The carriers are proposing additional weight breaks for shipments weighing under 500 pounds. They are looking to provide different rates for shipments between the following weight categories. Up to 100 pounds, 101- 199 pounds, 200-299 pounds, 300-399 pounds and 400-499 pounds.
- As far as liability is concerned, some carriers would not charge additional insurance if the actual value of the shipment is less than \$100. The carriers would then charge additional insurance for pallets of product whose value exceeds the \$100 limit.
- There is another option to give the shipper a choice of delivery times with the highest cost for shipments delivered by 7AM. The other options are next day by 10 AM, or by 2 PM or second day delivery. Other options would include a three to five business day delivery option.

While shippers may have a variety of options to choose from, the real question is not how can I save with my palletized shipments, but perhaps how much more it will actually cost. To add insult to injury, who is going to take the time to evaluate all of these pricing options before they ship their goods.

The cube based pricing proponents are forging ahead with this program and we will see if it will fly.

OUTSOURCING LOGISTICS - BEST PRACTICES FOR

MANAGING 3PL'S

Eye for Transport has recently published the results of their survey entitled "Outsourcing Logistics USA 2008 Best Practices for Managing 3PL's." With the proliferation of 3PL offerings today, this survey will prove to be a valuable asset for any company currently involved in a 3PL operation and certainly will be helpful to any company that is contemplating the use of a 3PL.

In the introduction to the survey results, several key points were brought out. These include:

- Outsourcing logistics operations has grown significantly over the past few years.
- Shippers are continually challenged to improve efficiency and reliability of their transportation and logistics operations while at the same time looking at ways to reduce their expenses in these areas.
- Outsourcing opens the door to many resources not necessarily available within the corporate structure. World-Class services, products, processes and technology, without the need to invest in infrastructure.
- 60% of Fortune 500 companies report having at least one contract with a Third Party Logistics Provider. And, that percentage continues to grow.

The survey invited 381 senior executives to participate in the survey. Manufacturers and retailers operating in the industrial, hi-tech, chemical, automotive, pharmaceutical, food and apparel industries, many from Fortune 500 companies. The respondents were asked a number of questions to establish their key concerns of outsourcing logistics operations. They were also asked how they plan to improve operations and performance, minimize risk and get the most out of their 3PL contracts. AND THE SURVEY SAID:

- 80% of the respondents that do outsource at least some of their logistics operations outsource transportation activities. This is double the results from this same survey just two years ago.
- 51% of the respondents outsource their warehousing operations, although only 16% also hand over their inventory management to a third party.
- Once the decision has been made to outsource to a 3PL, the satisfaction levels are quite high, reaching 72% in the latest survey, up from 58% just two years ago.

Key Drivers for Outsourcing Logistics Operations:

- Less than a quarter of the respondents to this year's survey outsource their logistics activities to avoid the costs of expanding their distribution systems, compared with more than a third of the respondents last year and only 16% the year before.
- Last year, a third of the respondents said that the need to co-

ordinate warehousing, manufacturing and inventory management was the primary reason for outsourcing. This is only an issue reason for 4% of this year's respondents.

-- The relocation, consolidation or expansion of manufacturing centers is the primary driver for outsourcing logistics operations, according to almost a third of this year's respondents, compared to 17% and 21% in 2007 and 2006 respectively.

-- Shipment monitoring is still a problem, with 19% of the respondents saying that their own IT systems are unable to track-and-trace shipments.

-- Since the majority of the respondents currently using 3PLs are getting "good" to "outstanding" service (91%), it is not surprising that they would "very likely" (22%) or "possibly" (53%) increase their reliance on 3PLs.

-- Only 5% said they were unlikely to increase their use of 3PL services, and 20% said they would definitely not be doing so, mainly because they already outsource everything.

-- More than two thirds of the respondents (67%) said that the answer to enhancing logistics partnerships lies in improved communications at all levels, while 63% said that well-defined requirements and procedures must be established.

-- Logistics outsourcing is a dynamic, shifting and growing business environment, and shipper-3PL relationships are evolving into proactive and cohesive partnerships.

-- 3PLs need to immerse themselves in the client company's culture and adapt to its management style. In return, shippers are beginning to see their 3PLs as an extension of the management team, rather than merely vendors.

-- The savings achieved and efficiencies gained by outsourcing logistics activities are potentially enormous, but mismanaged risk will undoubtedly end in failure. While companies are quick to publicize their successes, they are understandably somewhat reluctant to report their failures.

-- If outsourcing strategies fail to live up to expectations, 61% of the respondents believe it will be due to inefficient management by the 3PL, and 44% due to problems evaluating and monitoring 3PL performance.

-- Communication and information sharing between 3PL and customer is essential in order for a 3PL to achieve agreed performance levels.

-- "Clashing firm cultures" is still an area of concern for almost a quarter of the respondents. In terms of logistics outsourcing agreements, the partners often have different perspectives, different perceptions, and different expectations of the contract. While one may be locked into inflexible procedures, the other may operate under less rigid management that actively encourages initiative and

resourcefulness.

-- One of the dangers of outsourcing is that a 3PL may not be creative in respect to enhancing routes, resources, methods and processes. Short-term thinking here can undermine their customer's innovative transportation processes. Indeed, 20% of the respondents still regard "loss of logistics innovative capacity" as one of the factors that could adversely impact their outsourcing strategies.

-- While customers are cautious of becoming over- dependent on their 3PLs, effective communication and process transparency diminishes the perception of "handing over control" to a third party. While only 11% of this year's respondents see over-dependence on their 3PLs as a potential issue, more than a quarter are concerned that loss of control over the 3PL may jeopardize the success of their outsourcing strategies.

-- "Other" potential problems mentioned included ineffective cost monitoring, and insufficient investment in the client-3PL relationship, and one third of the respondents consider "hidden costs" as a problem area.

-- Changing circumstances necessitate the updating and renegotiation of contracts, and 40% of the survey respondents said that negotiating contract changes and negotiating rates are equally important hidden costs, with mention made of some 3PLs using minor contract changes as an excuse to hike the price.

-- Risk can be managed. More than half of the survey respondents still use performance indices for logistics outsourcing to do this, and some rely on regularly scheduled performance reviews.

-- Strengthening supplier relationship management is now one of the risk management strategies for 43% of the respondents, compared with 63% last year.

-- 20% of the respondents pointed out that risk can be minimized by improving communication at all levels, and enhancing performance strategies is considered a worthwhile option by 32%, almost unchanged since last year's survey. "Other" risk management options include collaborative metrics and shared savings.

Overall Industry Implications and Conclusions:

-- Individually, the survey responses highlight many problematic issues that companies must tackle in order to improve performance and customer satisfaction levels while remaining competitive.

-- Logistics outsourcing is a dynamic, shifting and growing business environment that demands proactive and cohesive behavior by all industry players.

-- While the majority of operators have recently moved, consolidated or expanded, not all of them have adequate information technology in place to deal with shipment tracking and reporting. Increasing legislation that requires proof of supply chain integrity, particularly for pharmaceutical and hazmat shipments, means that those who are unable to offer real-time end-to-end track-and-trace capabilities will lose customers and, consequently, revenue.

-- When 3PLs and their customers share their business visions and strategies, particularly at management level, it empowers both parties to plan ahead in terms of improving operating efficiencies while controlling -- and even reducing -- operating costs. These companies will achieve far more in the long-term than those who still regard their 3PLs as vendors, rather than partners.

DON'T MISS WAREHOUSE MANAGEMENT EXPO -2008

Tony Nuzio, President of ICC Logistics Services, Inc. will be providing a presentation entitled "Improving Your Bottom Line When It's Most Needed."

Don't miss this very important event on May 6, 2008. Register today at www.vai.net/wmexpo2008.

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The 20th Annual Business Trade Show and Conference of the Hauppauge Industrial Association will be held on May 22, 2008 at the Suffolk County Community College Sports and Exhibition Center, Grand Campus, 1001 Crooked Hill Road, Brentwood, NY 11717.

We look forward to seeing you there!