



LOGISTICS STRATEGIES

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Greetings

Welcome to the December edition of Logistics Strategies.

By the Numbers. Did you know?:

January 7, 2007: The date the following Parcel Carrier General Rate Increases become effective.

4.9%: The Annual General Rate Increase proposed by UPS for ground and air express shipments. It is the largest increase UPS has proposed in over a decade.

3.5%: The Annual General Rate Increase proposed by FEDEX for air express shipments for 2007.

4.9%: The Annual General Rate Increase proposed by FEDEX for ground shipments for 2007.

4.9%: The Annual General Rate Increase proposed by DHL for ground shipments for 2007.

3.9% The Annual General Rate Increase proposed by DHL for air express shipments for 2007.

Logistics Communications

There are any number of surveys detailing the functions and the percentage of time logistics executives spend in the execution of their duties. While the logistics executive has the overall responsibility for these areas, the job cannot be done properly unless there is an open line of communication between other departments directly involved in the logistics process. Areas such as packaging, plant/warehouse locations, order processing, procurement, inventory control, warehousing and transportation management are some of the major areas each logistics professional must know a great deal about to do the job effectively.

In making decisions on packaging and the corporation's constant pressure towards reducing packaging costs, how well does the logistics executive communicate the condition of the products when they are received by the ultimate customer? Does the logistics

department maintain any statistical information relative to types of damages, and/or conditions of shipments at time of delivery? Can these statistics support improper handling at a plant or warehouse? Can they support mishandling by a particular carrier, or by carriers within a particular region, and most importantly does the reporting mechanism, if there is one, indicate when additional damages occur shortly after the company has made a decision to reduce its packaging costs?

Many corporations have claims departments which are involved in filing claims for loss and damages. In this process, information is available which can provide a good deal of data to support whether the company is headed in the right direction on packaging issues. In some corporations packaging may not be under the direct control of the logistics department.

Regarding plant and warehouse locations, many issues are involved. Obviously senior management must make decisions relative to labor laws, tax advantages and operating costs when making a decision to locate a plant or warehouse. On the other hand, the logistics department should have a great deal of input into that decision process based on lanes of traffic, cost to serve, carrier availability and the ability to negotiate reasonable freight costs from and to specific locations. While it may seem a logical decision to have the logistics department's input in these decisions, very often they are never brought into the process. This has in many cases resulted in service problems and additional freight expenses to the corporations that fail to include the logistician in the decision making process.

The procurement department's involvement in the logistics area is most essential. Reducing inventory carrying costs is a critical issue. Many companies, however, have shot themselves in the foot by reducing inventory carrying costs, but increased their transportation and distribution expenses because of the lack of communications between the distribution area and the procurement area. What's very important is how well does the logistics executive communicate with his procurement department counterpart? Is there a joint effort between these two groups to serve the needs of the corporate goal, which is not only more sales, but more profitable sales. We have seen in many cases two separate departments operating in two separate directions without any regard for the other. This cannot be tolerated.

The procurement department is required to bring in raw materials for manufacturing at the least cost possible. The issues regarding the service surrounding those inbound shipments are something that the transportation and distribution department must have a great deal of input on. Once the sourcing and qualification of suppliers has been achieved, there should be a coordinated effort to issue routing Instructions to those suppliers, which will provide for the best possible service at the least possible cost. There must also be a system in place to route special need shipments on a time sensitive basis.

Very often, the procurement department, in its zeal to get product on the manufacturing line, will leave the decision as to how the shipment should be routed up to the supplier. It is evident that the supplier has one goal, that is to get the product to the customer in the shortest possible time. His concern about transportation expenses very often never enters the decision process. Corporations waste millions of dollars annually because of the lack of communication between the procurement department and those involved in the transportation and

distribution function. While this seems to be a very basic issue, it is overlooked quite often.

How well the logistics executive communicates with top management of the company can have a great impact on the future direction of that company. We have seen logistics executives so wound up in day-to-day issues of getting "the job done" and putting out fires that they fail to effectively communicate with top management.

In the execution of day-to-day business decisions whether a company outsources their logistics function, or keeps it in-house, may be a direct result of the ability of the logistics executive to properly communicate with other departments within the corporate structure.

There are very few departments within the corporate structure that have the impact a logistics department can have on the company's bottom line. Any savings in the areas listed above positively impact the bottom line thereby creating a greater profit for the corporation and its shareholders. How well this message is communicated to top management will bear directly on the future of that logistics professional, and/or department.

One question we wish to ask the corporate logistics professional is — if your company were faced with new top management either through restructuring, or through a merger or acquisition, would you be able to support your job, your department, and the functions it provides to the corporation? There are many cases where the logistics executive was unable to support his job mainly because of the professional's inability to communicate with other departments within the corporation and most especially with corporate executives.

How well logisticians communicate will have a direct bearing on whether there is a long-term employment opportunity. We urge all logistics executives to take a long hard look at their operation and how well they communicate with their corporate executives. Is there improvement needed?

Reducing Inbound Transportation Costs

We have often felt that inbound transportation costs represent an excellent opportunity for today's businesses to reduce costs. However, many companies are incapable of putting their arms around these costs and, therefore, the savings go undetected.

So how does a company go about getting their arms around these costs and how do they "make it happen"? The first step is to identify how these costs are being captured. One thing is for sure, the costs are always borne by the purchaser of the inbound material, however, and the costs can show up in a variety of areas.

Some questions need to be answered: what are the freight terms? Are there any hidden fees or discounts? Are there any volume incentives or off bill discounts involved in the freight cost structure? Has anyone

in the corporation established corporate purchase terms and conditions? If not, why not?

Freight collect shipments will allow the receiver of goods to clearly see what their freight costs are. It also gives the purchaser the right to route those shipments via the carrier of their choice and at the rate levels it negotiates.


On the other hand, shipments that are tendered freight prepaid or freight prepaid and added to the invoice will almost always contain a hidden shipping and handling fee that is almost impossible to discern from the actual freight cost.

The reality is that the best deal cannot be negotiated unless an analysis is done, supplier-by-supplier, to determine what the best freight terms would be. Only then will the company have all the facts it needs to improve its inbound supply chain, while at the same time reducing its costs.

There are five key areas of concern that must be looked at:

1. Freight Terms: Understand the freight terms your company purchases inbound products under.
2. Freight Rate Negotiations: Since your company is responsible for paying for their inbound transportation costs, then it has the obligation to negotiate the best level of service for those inbound shipments, consistent with the lowest costs for the services rendered.
3. Routing Instructions: Once the freight rates have been negotiated, the next step is to issue routing instructions to all suppliers to provide them with clear and concise instructions. The goal is to ensure that each supplier follows the instructions to ensure optimum transit times and lowest cost routing alternatives.
4. Routing Compliance: Once the routing guide has been implemented, there must be a routing compliance audit to ensure that the instructions are being followed to a tee. In addition, many companies charge back their suppliers for those routing violations that result in excessive transportation costs.
5. Premium Freight Costs: Premium freight costs show up in a variety of ways. It's not only an air versus ground shipment that creates premium transportation costs, but it can also occur when a ground shipment that is expedited unnecessarily. Premium freight costs can also be present when large LTL shipments are not tendered as partial truckloads and, therefore, lose the LTL discount altogether. Premium transportation costs also occur when suppliers do not properly consolidate shipments to obtain the lowest freight cost, or where they do not properly describe the shipment on the bill of lading and the carrier charges excessive rates. Whatever the cause, inbound premium transportation costs are controllable if you take the time to understand how the goods are purchased and take an active role in controlling those costs by constantly improving inbound shipping systems.

So what is your company doing about controlling inbound transportation costs?



Contact ICC Logistics Services for a free, no obligation review to assess where immediate savings are available.

Holiday Wishes

It is that time of year when we say goodbye to 2006 and welcome in 2007 with it's challenges and opportunities for personal and professional growth. We hope that this past year has been a rewarding one for each of you and your families and that 2007 will be an even better year. All of us here at ICC Logistics Services wish all our readers the very best this holiday season and a New Year filled with good health and prosperity.