



LOGISTICS STRATEGIES

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Greetings

Welcome to the February edition of Logistics Strategies.

Each month, LOGISTICS STRATEGIES focuses on logistics and transportation issues that matter to busy professionals; issues that affect cost, time, resources, and business strategy. Our clients, partners, and peers in the field tell us that they just don't have enough time to read numerous trade publications or surf the web in order to target the information they need to know, not tomorrow, but NOW.

And that's what LOGISTICS STRATEGIES is all about: efficiently delivering timely and topical logistics and transportation news to decision-makers; news that saves money, time, and resources.

We hope you enjoy this issue.

CARRIER SELECTION – GETTING DOWN TO BASICS

The transportation industry has undergone major changes over the past several years. And while these revisions have changed how we handle our day to day operations, some basic principles of transportation management have not changed. The area we are speaking about is the selection and use of freight carriers to haul a company's products. The basic principle behind effective transportation management is to ship goods at the lowest cost possible, consistent with the best service available. The only thing that has really changed is that there are more transportation options available today than ever before. With this in mind, how should shippers select freight carriers to serve their transportation needs?

The first step is to determine what the shipper's transportation requirements really are. In other words, what modes of transportation should be used, and within those modes, what is the optimum number of carriers the shipper should select to haul the company's products to ensure that its transportation and distribution requirements are met. While this is a very basic principle, many shippers today do not take the time to evaluate the types of services available and the ability of the carriers within the individual modes to effectively serve the shipper's needs. This leads to sleepless nights and lost customers.

Before the selection of the individual carriers can be made, the

shipper must determine which modes, or combination of modes, best serves its needs. While most shippers try to avoid the use of premium transportation service, such as overnight and second day airfreight, no company can survive in today's fast moving economy without having this type of service available when the need arises.

Next, the shipper will probably need to utilize the services of small parcel carriers to handle light weight, small package shipments for both inbound and outbound movements. Shippers are no longer limited in carrier selection to United Parcel Service and Federal Express. Today, the list of small parcel carriers continues to grow and includes many regional parcel carriers that distribute freight at very attractive rates.

In the motor carrier arena, shippers must ascertain their needs for both regional and long-haul less-than-truckload carriers, truckload carriers, and expedited carriers to handle rush shipments.

Shippers with large volume shipments, with the availability of rail sidings will also have to ascertain their needs for volume shipments by rail, or the use of intermodal services to compete with the volume shipments tendered to the motor carriers.

Within each of these modes, there is a great deal of competition. The forces of competition have greatly enhanced the service levels provided by these freight carriers, and have for the most part, kept the freight rates fairly competitive, that is before fuel is factored in.

Once the shipper has determined the types of carriers it needs to do business with, it must begin the selection process to cull out those carriers that will meet the shipper's needs on a continual basis without negatively affecting the distribution of the company's products. So then, how does a shipper select the right carriers to meet its needs and to ensure that a long-term, mutually beneficial business relationship is achieved? Here are some tips on carrier selection:

*Make sure the carrier can meet your needs - The first avenue of review is to make sure that the carrier selected has the ability to serve the shipper's needs from the standpoint of providing service, at the rates agreeable to the shipper, which also allow for a margin of profit for the freight carrier. In order to do this, the shipper must physically visit the carrier to review its operation to see the physical plant, employees and equipment. After touring the facility and discussing the shipper's needs within the operations department, the shipper should have a sense of comfort that this carrier does in fact have the type of operation to meet the shipper's needs. While this sounds like a very basic and fundamental principle, many shippers never set foot into a carrier's terminal to physically see the operation. How then can it be assured that freight is handled properly as the shipper requires?

Analyze the carrier's operating authority - When dealing with motor carriers, the shipper needs to ascertain what type of operating authority the carrier will be operating under. Today, a "motor carrier" may operate under several different operating authorities. It may operate as a motor common carrier, motor contract carrier, a freight broker, or even a freight forwarder. The shipper and carrier need to clearly define what operating authority the carrier will utilize when handling the shipper's business, as liability standards differ greatly by authority.

*Understanding carrier pricing - Shippers must ensure they receive written confirmation from all freight carriers of the rates they have agreed to. This written confirmation should include base rate levels and incentives or discount percentages, if applicable. In addition, there should be a commitment to how long the rates will remain in effect before the carrier would increase those rates. Each carrier will have their own set of rules and regulations. It is critically important for the shipper to have a complete copy of the "Rules of the Game" that it has agreed to play.

* Check into carrier's financial standing & Shippers have an obligation to ensure that the freight carriers they do business with are financially sound. Checking on the financial status of a freight carrier is becoming increasingly difficult due to a reduction in reporting requirements for motor carriers, and the proliferation of third party shippers' agents in a totally deregulated environment. However, this does not relieve the shipper's responsibility to check into the carrier's financial status to satisfy its needs that the carrier or carriers will be around to provide the transportation service for the long term.

This on-going measurement should not only include the service levels provided by the freight carrier, but should also take into account the carrier's billing practices. In other words, what percentage of the carrier's invoices are rendered error free? If the shipper needs to expend a great deal of effort to audit and adjust the carrier's freight invoices to the proper rate levels, then the shipper is incurring additional costs it had not anticipated when the original transportation agreement was consummated. In addition, shippers should track the carrier's handling of product in a "damage free" environment. Shippers that package their goods properly should be afforded claim free transportation services by the carriers it does business with, however, many shippers do not evaluate their claims experience with freight carriers, nor do they track the freight claims processing function to ensure that once claims are filed they are promptly paid.

The issue of carrier selection is paramount to the transportation management function of any company. While most of the principles we have recommended here are basic in nature, they are often overlooked. It is important for transportation management executives to get back to basics, so that they do not lose sight of their primary job function which is to ship goods at the lowest cost, consistent with the best service available; advise management and other department executives of changes and new technology; to protect the corporation from prosecution regarding regulatory requirements and compliance; and finally, to consistently keep up with changing trends and to self-educate as new opportunities arise.

THIRD PARTY SERVICES: 3 PL BENEFITS

Third Party Logistics has become one of the most trendy terms used in the transportation and distribution field. Companies providing third party logistical services include both transportation companies actually performing the service of distributing a company's products,

and consultants that provide the analysis and implementation function for companies.

The laws deregulating segments of both rail and motor carrier transportation has been sending shock waves through corporate traffic departments for quite some time, which has resulted in the down-sizing or total elimination of the corporate transportation function in many companies. Companies felt they no longer required a staff of professionals to manage its transportation, since all you had to do was "negotiate the best rate." Not so!

While many companies eliminated their traffic departments, some have felt the pinch from this reduction in staff in reduced service levels, increased freight costs, and a lack of knowledge. The reason is that many companies allow non- transportation people to negotiate rate and service arrangements without having a complete knowledge of what services are available, what's legal vs. illegal, and how to protect the company's interest by negotiating and securing the best service-best rate arrangement.

While many companies have suffered from the reduction in staff of trained transportation professionals, others have gained significant benefits through the utilization of Third Party Logistics firms to manage their transportation function. Not only have these companies gained improved service and reduced rates, but they have also gained significantly through a reduction in operating expenses. The main reason is that the Third Party Logistics firm can provide the transportation management service at a much lower cost and with greater expertise than the company could on its own.

It is quite clear to us that the reduction in salaried employees is a trend that will continue. We don't see US corporations increasing their payroll anytime in the near future. This being the case, the reliance on third party firms to provide a variety of services in the transportation and distribution area is here to stay.

The only question that remains is, what services do these Third Party Logistics firms provide and which ones should a shipper avail themselves of? To answer this question, we are highlighting below some of the broad categories shippers may want to consider outsourcing to a third party.

* Freight Rate Negotiations: While this may seem like an easy task, many shippers have not obtained the best service-best rate option. Some shippers merely looked at the level of discount a carrier was providing. They did not take into account that different carriers have different base rates, some discounts were published at lower levels for collect shipments as opposed to prepaid shipments, and these discounts would not apply if the freight invoices were not paid in a timely fashion.

A Third Party Logistics firm would have the ability to ascertain which carriers have the proper operating authority to provide a specific transportation service within a defined geographical area. It would also have the ability to assess the financial strength of those carriers, and perhaps eliminate from the negotiating process those carriers it deemed "in financial trouble." As the carriers pass through this evaluation process of first maintaining the proper authority, which includes maintaining adequate insurance and safety standards, as well as its financial stability, the next process is to determine the best

possible rates for the transportation service involved. This must include a review of the shipper's products to determine the proper freight classification and whether the shipper's products could fall into a more favorable pricing arrangement.

The next step in the process is to determine the carrier service levels between the shipping and receiving points involved and the carrier's consistency in maintaining those service levels.

Once this complete evaluation has been accomplished, it must be measured on a regular basis to ensure that the required results are being obtained. We would like to point out that we do not deem Third Party Logistics firms to be better negotiators than individual shippers. However, many small and medium sized manufacturing, retail and distribution companies do not have the time, technical expertise nor the data available to make the aforementioned evaluation. In addition, Third Party Logistics firms negotiate from a greater position of strength, since they represent a multitude of companies.


* Site determination studies for plants, warehouses and distribution centers: Determining where to locate a manufacturing plant, warehouse or distribution center is not a simple task. There are a variety of issues to consider, both from a financial and a logistical standpoint.

There may be tax advantages to opening a plant, warehouse or distribution center in a particular city or state. But in addition to that, other considerations must be taken into account. The main one being - how well can a shipper service customers from a specific location? For example, a corporation may want to locate its manufacturing facility close to its major suppliers. On the other hand, while the plant may be close to its suppliers, the freight costs may be high and the transportation services to haul the company's products may be inadequate.

Many companies establish regional warehouses to distribute their products to customers in various regions of the country. This allows the company to deliver its products usually within days after the order hits the regional warehouse. This sounds like an excellent competitive advantage for the manufacturer, and often is. However, there may be other ways to accomplish the same goal at lower costs. An analysis can be done to ascertain whether larger volume shipment in truckload, and/or carload quantities could be shipped to a distribution point, and then distributed to the customer within a reasonable time frame. This concept could provide the shipper with reduced freight costs since it is shipping in volume quantities from its manufacturing plant to a distribution point; a reduction in claims, since there is less handling of the product; and clearly a reduction in warehousing costs where charges are assessed for bringing product into a warehouse, storing that product for a stated period of time, inventory carrying costs, handling charges, and a charge for releasing goods from the warehouse.

Here too, we wish to point out that this analysis could be done by a manufacturing firm if it had the required staff and time to accomplish this survey. The benefit of the Third Party Logistics firm to provide this service is that it maintains the level of expertise and can provide the service at a much lower cost than it can be done in-house.

* Preparation of procedure manuals and routing guides to assure



program goals are met: Another service provided by Third Party Logistics firms which is extremely beneficial is the production of operations manuals which clearly spell out the proper procedures to be followed for all transportation and distribution matters including, but not limited to: proper preparation of the bill of lading; freight claims processing; shipment routing; and shipment/weight/carrier selection alternatives.

We have highlighted just a few services provided by Third Party Logistics firms. Obviously, there are additional services provided, such as: *Freight bill pre-audit and payment, *Freight claims analysis, *Commodity classification analysis, *Private fleet analysis, *In-house training on transportation and distribution matters, *Securing proper freight allowances on inbound shipments, *Analysis of packaging to secure lower freight rates, *Additional transportation and distribution issues

While shippers could undertake any of the aforementioned analyses on their own, we believe that a good Third Party Logistics firm can provide a more complete and thorough analysis in the various areas, due to its defined expertise. It should also be in a position to provide that service at a lower cost than doing it in-house. This then would truly be a win-win situation for both parties.