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TRANSPORTATION BUSINESS INTELLIGENCE

We are all painfully aware of the current economic conditions that have affected everyone, not only in business but also as consumers. The current economic downturn is forcing many companies to make tough decisions on cost cutting that will obviously include reductions in staffing and other savings measures. We find it very interesting how companies react to this type of economy which comes around from time to time by pulling out all the stops as it pertains to potential savings. Why wouldn't a company have an ongoing campaign to cut unnecessary costs out of their budget EVEN WHEN BUSINESS IS GOOD?

Over the past 6 months we have experienced an explosion in requests from companies around the globe to look into their current transportation and logistics programs to see where savings opportunities may be achievable. This includes looking at everything from their parcel carrier shipments, truck shipments both LTL and Truckload, as well as their international shipments including ocean and air services. These initiatives have generated significant dollars in transportation cost savings for our clients, including some that we found to be very basic opportunities. Let us explain.

· A parcel shipper with a $2 million dollar annual freight spend with one of the major parcel carriers had two separate shipper numbers assigned to their account, meaning they ship from two separate locations. However, when we reviewed their contract with the parcel carrier, only one account number was listed. The net effect of the "OVERSIGHT" was that all of the shipments tendered to the parcel carrier from the location not listed on the contract did not receive any incentives. In addition, the revenue generated from that location was not used in the calculation for the tiered incentive discount program which is based on overall carrier revenue tendered by the shipper. Certainly, the shipper should have recognized this contract inconsistency.

· A shipper of commodities via LTL carrier services contracted with a consultant to pre-audit and approve for payment their LTL freight bills. A very wise decision. However, the shipper failed to include in that audit three carriers that they regularly utilize for the distribution of their product. These invoices go through their accounts payable department without an audit and get paid as submitted. This "OVERSIGHT" was uncovered when one of the invoices covering a large LTL shipment which moved only a short distance cost the shipper over $7,000.00 and was paid by their accounts payable department without question. Had this invoice been pre-audited before payment, the audit firm would have had the invoice adjusted to its proper charge of $1500.00. If you contract for a freight pre-audit, or pre-audit and payment service please make sure that your auditor receives ALL of the freight bills you are responsible for paying.

· A shipper of products using Truckload carriers contracted with a freight broker to handle ALL of their shipments out of their main shipping facility. The thought process was to have complete control over the shipment of goods to its customers. While this was a good decision on the company's part, the way the freight rates were structured wasn't such a good idea. You see the broker was looking for flexibility in pricing to cover all of the loads. They set up a "Benchmark" that the broker would try to meet each week. The shipper even went so far as to generate a weekly Benchmark Analysis Report to show management the variances in the freight charges between the benchmark and the actual costs. For what purpose we still do not understand. You see this company has consistent destinations for their customer shipments. Why didn't it negotiate flat rates between the origin and destination points with a cap on the Fuel Surcharge and ask the carrier to "hold" those rates without an increase for a specified period of time? The shipper has enough freight to warrant this type of arrangement. In one of those lanes, where there are at least 5 to 10 truckload shipments per week, the rates varied over 100%. There is no reason for that to have happened.

· A shipper contracted with a post audit company to audit its freight bills after their Pre-Audit and Payment Company completed its audit of the freight bills. This is something every company should do as the post audit firm usually charges a fee based on a percentage of the savings they achieve from the audit. Kind of a "No Brainer" we call it. The post audit firm found a freight bill covering a truckload shipment that was billed out at $3800, when in fact the actual charge should have been $900, a $2900 overcharge. In addition, it uncovered a $650 inside delivery charge approved and paid by its pre-audit firm for a dock delivered shipment. Did we say "No Brainer"?

These examples are just the tip of the iceberg in identifying opportunities for transportation cost savings. Remember, any savings achieved in transportation and logistics costs move directly to the corporation's bottom line. This is the first area you want to look at and an area you want to continually look at. Don't wait for management to be breathing down your neck before you take the necessary steps to enhance your company's financial position. You should be looking at all of these opportunities even when business is good.

THE FUEL SURCHARGE GAME

A recent survey reported that many factories and other businesses are getting into the Fuel Surcharge game. As we have reported previously, the current Fuel Surcharge which started within the trucking industry came into play back in 1999 as a "Temporary" Fuel Surcharge. Since then, all transportation sectors have jumped on the bandwagon and have been applying these fuel surcharges, not on a temporary basis but on a permanent basis with no end in sight.

Now it seems that other segments of our business world are finding it necessary to assess Fuel Surcharges to their customers. In the end, we are all consumers and as such, we have been and will continue to feel the punch these surcharges have caused.

Recently, the Philadelphia Federal Reserve Board received responses from 78 manufacturing firms in its district. Of these 78 responses, 29% of those respondents have been adding a fuel surcharge to their invoices to their customers obviously in an effort to "Relieve the Pain" from the fuel cost burdens placed on them. Over 60% of the respondents stated that they have raised their base rates to offset some or all of the additional costs associated with fuel. The report went on to say that "a significant share of the firms reported that suppliers have instituted transportation, commodity or energy surcharges."

Over 87% of the respondents reported that their suppliers had already imposed transportation fees, while some 44% indicated that the supplier had been assessing an energy surcharge and some 52% of respondents were assessed special fees to cover a variety of products. All of this comes on the heels of the energy related fees assessed by the entire transportation industry on top of rising base rates and fees.

Many businesses are beginning to feel the pinch from the corner coffee shop where their customers bring lunch to work rather than use their vehicles at lunchtime. Some business like HNI, an office furniture manufacturer, has seen their second quarter profits drop by a whopping 50%. So what has HNI done to offset this loss? It has begun to raise its prices to its already financially strapped customers. Where does the cycle end?

Even the "big boys" are getting into the surcharge game. Companies like Dow Chemical have said they will implement a freight surcharge of $300 for every truckload shipment to its customers and a fee of $600 for every volume shipment by rail. Another chemical producer, Oxea, said it "will remove these added fees when fuel prices return to normal levels." Two questions come to mind, 1) what planet are they from and 2) we would love to know their definition of normal. Don't hold your breath Oxea, fuel prices will NEVER return to a level that could be considered normal.

While some manufacturers have taken the bull by the horn, there is many more that due to contractual obligations and various competitive pressures just are unable to pass these costs onto their customers at the present time. We believe, however, that in the future we will see a huge increase in these surcharges and added fees to offset these higher fuel costs. Where it all ends nobody knows.

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