



LOGISTICS STRATEGIES

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Greetings

Welcome to the November edition of Logistics Strategies. We have added a new feature to our newsletter, Did You Know, where we will provide interesting statistics and facts about the transportation industry. We hope that you find these tidbits to be as interesting and informative as we do. Enjoy.

By the Numbers. Did you know?:

1. The thriving Port of Shanghai in China is expected to handle more than 21 million containers and 500 million tons of cargo by the end of this year.
2. Trucking companies, both public and private including warehouses, employ an estimated 9 million Americans.
3. An estimated 15.5 million trucks operate in the United States.
4. An estimated 360,000 motor carriers operate in the United States. 96% operate 28 or fewer trucks. 82% operate 6 or fewer trucks.
5. More than 3.3 million truck drivers work in the United States. One in ten are independent, and the majority are owner operators.

Thank you for reading Logistics Strategies and, as always, please keep your feedback and suggestions coming.

Parcel Pricing Changes on the Horizon

Parcel Shippers are preparing to pay more in 2007 as a result of annual General Rate Increases imposed by the big 3 parcel carriers, UPS, Federal Express and DHL. While this is an every year occurrence, the guessing game now begins to try and assess what those increases will actually be.

Recently, the investment firm Morgan Stanley predicted that UPS would raise their rates approximately 3%. They feel that Federal Express will take a smaller increase at 2.5% and expect DHL to come in at around 1.5 to 2%. One thing is for sure; we will not have to wait long to see what the actual increases will be.

There is another pricing change on the horizon at UPS that could amount to significantly higher charges for shippers of oversized parcels. UPS has proposed a change in how it calculates freight costs for light and bulky parcels. UPS estimates that less than 10% of its shipments will be affected by this change, but that is no consolation for those shippers that ship these oversized parcels on a regular basis.

UPS spokesman Stephen Holmes stated that shippers have been asking for a simpler pricing method and UPS claims this new pricing model will be just that. He further stated that this change is in line with UPS' ongoing effort to get it's pricing "more and more finely tuned".

The new pricing formula is targeted towards lighter, larger boxes that take up more space. The rating concept takes into account the actual dimensional weight of the product produced when you add the length, width, and height of a packages measurement and divide by 194 to give you the packages' dimensional weight. "Dimensional weight pricing more accurately allocates true cost of handling a delivery", Holmes stated.

An example of the impact this change could have on shippers is evident when we compare a box rated under UPS' current rule for an oversized 2 package or 50 pounds. That package would now be rated as 75 pounds using the new dimensional pricing formula. If this box were shipped cross-country, the cost would jump from \$27.73 to \$36.43, an increase of 31%. Some shippers on the other hand will receive lower charges. Under this new formula, however, a majority of shippers will see their costs increased.

Shippers would be well advised to analyze the products they ship which are oversized packages and think about changing packaging configurations to reduce the impact of this new pricing structure from UPS.

The only question that remains is: can Federal Express and DHL be far behind?

Airfreight Costs Got You Down?

As we move into another holiday season, shipper's budgets will be thrown out of whack by a need to expedite shipments via airfreight. While this is a necessary evil, this time of year, there are some strategies shippers can use to help reduce airfreight costs to soften the blow.

The following 5 key's to reducing total air freight costs was developed by Navigo Consulting and worth looking into if any airfreight costs hit your budget.

1. Identify and quantify the impact of accessorial charges on your total transportation spend. Although many shippers focus on fuel and security add-on fees, overall accessorial fees can make up more than 30% of the total shipment cost. Despite what the carriers and forwarders say all accessorial charges and fees are negotiable.

2. Do not overlook custom brokerage fees, which can contribute significantly to overall cost. Navigo Consulting's Tim Sailor says it's possible to negotiate reductions in entry fees, additional invoices/invoice lines, and disbursements fees with rates varying up to 50%.

3. Do not get locked into an exclusive relationship with a single carrier(s). While there is a lot of value in partnering with top suppliers, examine other carriers and options. Many shippers do not take the time to objectively evaluate their requirements and the capabilities of other providers, especially some of the smaller niche players.

4. Look at other modes of transportation, including ocean, LTL and ground multi-weight. Evaluate supply chain practices for impact of longer transit times.

5. Audit all freight bills. Most shippers miss out on significant savings by not auditing freight bills. Historically, shippers can reduce their overall shipping costs by 4-8% by systematically auditing invoices for correct application of rates and add-on fees. If internal resources do not allow it, consider hiring an outside freight audit company, which provides a return on investment very quickly in most cases.

These are sound suggestions that every company can implement without a great deal of effort, and the results will speak for themselves.

The Logistics Report Card

We are all too familiar with the Report Card Concept in school. These report cards are used by teachers to let the parents know how their children have performed during the year. Most report cards not only contain the student's grade, but comments from the teacher regarding the student's strengths and/or weaknesses within each of the subject categories.

We have felt for a long time that this report card concept should be a standard procedure for all logistics departments. When we talk about report cards, we can break them down into two distinct areas.

First, there should be an internal report card that the department utilizes to measure itself against its goals and objectives. The second report card should be one that is submitted to management on a regular basis, monthly or certainly quarterly. All too often, however, neither of these report cards are issued, so that there is no way to determine whether the individual department's goals are being met, and from a much broader standpoint, whether the logistics department is doing the job it is charged with within the corporate structure.

"In the old days", most corporate traffic departments were required to produce a monthly report to management indicating that department's contribution to the corporation's bottom line. This report included projected freight savings through rate negotiations with all carriers; savings obtained through post-auditing freight bills either in-house or by outside post-audit firms; results of freight loss and damage claims

filed, collected and an evaluation of the types of freight loss and damage claims by claim type and any other activity the department was involved in.

The months flew by and the need to find data for the current month's report sometimes caused a great deal of anguish. On the other hand, the department executives were compelled by senior management to submit these reports each month. Sure, some months the results were staggering. In other months, however, the results were less dynamic and, in some months the department's activity did not produce any 'savings', but merely reported on the activity the department was involved in.

Today, more than ever the logistics department must report the results of its efforts to senior management to outline the goals and objectives of the department and the successes, or failures of each of those objectives.

Some logistics executives we have spoken to have told us that their management has told them 'that's your job—just do it'. On the other hand, we believe that the logistics executive certainly knows what the job is, but has an obligation to prove to management that the job is in fact getting done. One might phrase it this way "I know it is my job and these reports prove that I'm doing my job".

The third party logistics field is continuing to grow by leaps and bounds because those companies sell directly to senior management on the benefits of reducing overhead and logistics expenses. They know exactly which hot buttons to press. On the other side of the coin, does senior management know what its corporate logistics department is doing? Are they viable within the corporate structure? Are they overstaffed? Understaffed? The answer to these questions can only be achieved when there is a true reporting mechanism on the value of the logistics effort. So how should this report card be structured? We have several thoughts:


The report card must be sent on a regular basis. It should be decided whether this report is provided to management on a monthly or quarterly time frame.

The report card should include the goals of the logistics department, and should contain a realistic timetable to achieve those goals. Once the goals have been established they should be prioritized to achieve the best bang for the buck.

The report card should include the successes—those goals that have been met on time and the resultant savings and/or improvements in efficiencies achieved. Likewise, they should also report on those areas which could not be achieved and the reason those goals were not met.

As goals are achieved, they should be moved to a completed status and new goals and objectives should be added to the current priority list.

Complete backup and documentation should be available to corporate management, should anyone question the validity of the accomplishments.



One important note here is that management in today's fast moving business environment is not a popularity contest. Since the logistics function clearly involves interaction of most, if not all corporate departments, the logistics executive has an obligation to achieve its goals even if other departments within the corporate framework fail to work as a team.

Remember there are not too many departments within the corporate structure that can have such a major impact on cost savings as the logistics department. Therefore, it behooves all logistics professionals to clearly define their goals and objectives, and to meet those goals and objectives in a timely fashion. Also, logistics executives need to take credit for its successes, or responsibility for their failures.

Recently, we had a discussion with a client that had huge, integration problems with a third party logistics provider. In trying to justify their existence, the third party logistics provider came back with a new proposal to provide additional services to the corporation. In its proposal it stated that its fees for the coming year would be in excess of \$1 million dollars. They also indicated that there would be a "learning curve" of approximately a year before they were able to fully implement some of the programs they had recommended. Our suggestion to the client was to take that fee and divide it by the number of manufactured units it would have to sell to achieve that dollar amount of profit. This is certainly a number corporate management would understand and could then use to make a decision as to whether or not it was amenable to allocating those funds to have someone begin to learn their business.

While there are no clear-cut answers when it comes to outsourcing complete control of logistics, or a portion thereof, this can only be decided upon when corporate management has all of the information necessary to make its decision based on realistic goals and objectives. And most important, is its faith, or lack thereof of its corporate logistics department. The way to insure top management has faith in the logistics operations is to show them by regularly providing "The Logistics Report Card". What are you waiting for?