



## LOGISTICS STRATEGIES

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### ***My Freight Costs Are Too High... I Want Them Reduced Now!***

We hear it all the time. "I need to reduce my freight costs because they are too high!" Well, the first question to ask is why do these companies believe their freight costs are out of line? What methodology was used to determine that these costs are high? Usually, it's the corporate internal measuring stick because they are higher than what the company wants to pay. Well that's a real scientific way to base your cost cutting initiatives on!

On the other side of the coin, there are shippers in the marketplace who are paying exorbitant freight rates and don't even know it. Why such a huge difference in philosophies? Does it mean one company is more sophisticated than another? Perhaps, but we believe the main reason is that neither company really understands how to go about analyzing their freight costs to ensure they are always competitive in an ever-changing marketplace.

A recent study was conducted by The Aberdeen Group to determine what the "Best in Class" companies were doing to control these costs. The study involved almost 400 companies and the results were quite revealing. The majority of the respondents believed they could reduce their transportation costs by almost 9%. The way they would go about obtaining these savings would involve a more sophisticated procurement strategy, as well as implementing robust freight audit and payment systems to back up these Best in Class results.

You see the only way to really attack freight cost reductions is through a comprehensive analysis of current business conditions and projections of future trends, based on accurate and real time data. Obtaining this data however is the real challenge. Many companies pay their freight bills in house and have no systems to retrieve shipment and customer historical data or project what their costs will be in the future. It is a very archaic approach to a very important task. In some cases, even if these companies did have this data available, they do not have the expertise on staff to evaluate the data and make intelligent business decisions based on the findings.

With this in mind, many companies go directly to the carriers and tell

them they must receive immediate cost reductions. Some carriers comply, reduce their rates and perhaps still make a profit. Others will cut into their profit margins so deep that they are forced at some point in the future to increase the rates substantially or to walk away from the business altogether. Neither of these "solutions" has any value to the shipper or the carrier. The shipper is then forced to seek out other transportation service providers to handle their shipping activity when they just might not be the best service provider for the shipper or its customers. The results are often increased Total Cost of Ownership due to customer dissatisfaction. And, many companies do not know how to measure increased costs especially when they lose a customer as a direct result of poor service. The reality is most companies cannot quantify this cost of not doing business the right way.

There are steps that shippers must take to enhance their analytical requirements, as well as their procurement strategies. Here are some strategies the respondents from the Aberdeen study came up with.

- \* Many of the respondents will be managing their carrier procurement through a centralized plan to get "More Bang for the Buck".

- \* Many of the companies will allow their carriers to bundle and unbundle lanes of transportation to make their pricing more competitive. Sometimes shippers force carriers to take all of the lanes they are bidding on whether they can properly service those lanes or not. This makes no sense at all.

- \* Many of the respondents agreed to negotiate in multiple bidding rounds with their service providers rather than accept the first bid as the final bid. This is an excellent approach for them to take.

- \* Many of the respondents agreed to implement a formal spend management process which would encourage more innovation from their carriers in their bid responses.

- \* 78% of respondents are concentrating on improving their freight audit and payment processes. Remember these respondents are the "big boys" in their respective industries, so their advice is worth looking into.

The bottom line is this. Rising freight costs is clearly the top pressure driving companies' renewed focus on transportation procurement. Guess what? This has been and will continue to be the top priority for most companies now and into the future. Companies however should not even think about beginning this process unless they have comprehensive data from their internal shipping history data base. If they cannot obtain this data from internal sources, they clearly should look into outsourcing their freight audit and payment function. Shippers today have access to cutting edge Freight Audit and Payment services that have the ability to audit invoices at 100% accuracy, capture all the necessary data, and also make the data available to the shippers 24/7/365 via web applications. This gives these companies the ability to perform comprehensive analyses to achieve the results the "Big Guys" get from these same processes. And here is the best part. These leading edge Freight Audit and Payment companies can provide all of these services for approximately 10% of the total cost shippers would incur if they were to attempt to perform these services internally. Sounds like a no-brainer to us.

## ***So You Don't Want to Audit Your Parcel Carrier Invoices!***

Today's small parcel business exceeds \$100 billion dollars annually and those numbers climb exponentially every day. The process of performing retail transactions over the internet continues to grow and the big three parcel carriers, UPS, FedEx and DHL are all well poised to handle any challenge that is brought their way. The parcel carriers' customers are faced with the task of first, understanding where their parcel freight costs are being spent, how much is being spent by individual service offering, and, how to ensure that those expenditures are being properly assessed by the parcel carriers.


With the tremendous growth in parcel carrier services, the former process of receiving paper invoices is totally outdated and costly to process. Another reason for this is that many of the paper invoices these carriers would submit are summary invoices that do not contain all of the details of the services provided and charged for. So the real need is to convert these invoices to some form of EDI (Electronic Data Interchange) format or utilizing the carriers' proprietary electronic invoicing process to ensure that all of the details covering all of the shipments are included. Once that is done, the parcel carrier customers are half way home.

What is the other half of the equation? It is the need to thoroughly audit these invoices to ensure 100% invoicing accuracy. Most shippers are aware of this need and either perform this audit internally, use an outside audit firm to perform the audit process or have the carriers provide additional incentives or discounts to offset any audit recoveries. It is important to point out, however that this audit process usually only covers Guaranteed Service Audits. That is audits that obtain refunds for any late guaranteed deliveries that are not caused by an Act of God or conditions beyond the control of the carrier. May we be so bold as to point out that the Guaranteed Service Audit is only one piece of the audit process and they are leaving an awful lot of additional money on the table.

Here are two examples for you to ponder based on actual parcel carrier audits we have uncovered this month alone.

1. A parcel carrier customer that ships lamps and lighting fixtures had one of their invoices for a shipment containing an oversized package mis-calculated by the parcel carrier that resulted in a refund from the audit process of over \$1900.00. That is just one shipment remember!

2. A shipper of fabrics and piece goods that spends over \$3 million dollars annually with their parcel carrier has been double-billed; no let's call it multi-billed by their parcel carrier for a great number of shipments over the past few months. Their audit recovery for this month so far has been in excess of \$8,000. The reality is that once all of the duplicate billing credits have been applied by the parcel carrier, this customer will receive refunds totaling over \$100,000. Can anyone say "computer glitch"?



Based on these two case studies alone, one can see the real value of electronically auditing these invoices to ensure 100% invoicing accuracy, right? Well don't be so sure. There are many shippers who have signed waivers agreeing not to have their parcel invoices audited. Many have received additional incentives, or rebates from the parcel carriers to offset the effects that any audit might uncover. In their infinite wisdom, these shippers truly believed that they were acting in the best interest of both themselves and their parcel carrier partners. The big question is however will the additional incentive received offset the potential for non- traditional audit findings as detailed above? We think you know the answer to that question already. So why would any company agree to these waivers in the first place? We continue to ask ourselves this same question!