

Five Must-Know Steps for Freight Savings

Learn the five steps that the best consultants know and find your freight cost savings

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Most Companies Forfeit Freight Dollars

Today's global market demands reliable and cost effective transportation, but transportation programs are often left unchecked creating opportunities for transportation companies to profit at the expense of the customer or Shipper. In fact, most programs are not optimized for the Shipper. This inefficiency has many causes and a large one is running lean. The Shipper often assigns too few resources to transportation optimization projects leaving them unchecked, while the business around them is changing. Changes in product sourcing, in distribution points, or in merging operations can lead to programs that are less than optimized. The Carrier gains unfairly from this predicament while the Shipper suffers losses to the bottom line.

Also, most cost levels are higher than market. This is the area where the Shipper is most disadvantaged. When a Shipper faces-off with a Carrier, they are dealing with a professional negotiator - someone who discusses pricing daily while a Shipper may negotiate a contract once a year at most, creating an uneven playing field and the Shipper ultimately pays the price.

Case Study 1: Shipper in the computer peripheral industry ignores international freight forwarding program for 3 years. Product origins change from Japan to Malaysia. After professional review and implemented plan, this company saves 57% on freight expense.

Even those few transportation programs that are reviewed remain not optimized. The fact is that the Shipper often lacks the broader perspective to measure its overall efficiency.

Another facet is paying for too much service by using expedited costly modes instead of more economical ones.

Case Study 2: Shipper that manufactures and distributes computer storage solutions is executing an advanced exchange program – sending a replacement device first and waiting for the defective one to return. The return shipment's service level was set to using priority overnight. After reviewing the business requirements, the service level is down-graded to ground and the customer saves 37% on this program.

One solution is to hire a transportation consultant to sort things out and provide advice on what is and isn't working, and on how to implement the industry best practices.

Select an Independent Consultant

Be selective when choosing your consultant because not all consultants are equally competent.

Select a consultant who is completely independent and who is entirely compensated from project fees. Some consultants derive compensation from referral fees provided by the selected Carrier. This raises a question of integrity and poses a direct conflict of interest.

Secondly, enter agreements that pay the consultant on a single project cost. These are more cost effective as fees are calculated based on returns on investment "ROI." Most projects priced this way generate a 5 to 1 ROI; a shipper pays one dollar to receive five back in one year. Also, ROI based proposals lead to the optimized solution - one that combines service strengths and competitive pricing.

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Conversely, contingency based proposals share savings for a contract period –they range between 25- 50% of savings; one dollar paid to get two back. Additionally, consultants who solely operate on contingencies seek the cheapest solution for the customer, which may lack the necessary service. Independent consultants are not influenced by competing interests and serve their customer's interests best.

Use proven methods that generate results

Freight programs should be reviewed during the budget making period and should use proven methods that drive improvements; below is a five step approach that leverages the Total Quality Management (TQM) process to unveil savings opportunities and reach optimization.



Step One – Analyze Shipping Activity

Collect a representative sample of freight bills. This data should be available from the Freight Audit and Payment firm, “Auditor.” If an Auditor is not in place, finding and installing one should be included into scope of the improvement project. The freight audit and payment firm can perform this function better than any in-house solution. The Auditor’s service usually pays for itself from the savings generated from service claims and other billing errors.

Interview key stakeholders to validate the business plans for the following year and obtain answers for key assumptions. For example, will product sourcing still originate in Hong Kong? Will distribution occur at the five warehouses across the country? Are volumes forecasted to grow at 20%?

While interviewing the stakeholders confirm the required service levels needed to support the business. These metrics will be used during the Implement Plan and Locking-in Agreement stage. At this point, establish the metrics that will be used for carrier accountability. Sample metrics are:

- On-time %
- Damaged %
- Short or Lost%
- Transaction Interface errors%.

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Simplify the way the data is presented; combine all costs and categorize costs by mode, service level or geography. This method will ensure that all stakeholders can understand the costs and benefits of possible solutions.

Step Two- Benchmark Current Costs to Market

A consultant is more effective than an internal resource in producing competitive benchmarks. The consultant draws upon their experience of helping other shippers and pulls the benchmark data from their proprietary library. Only a consultant can provide this perspective.

Step Three- Quantify Savings Opportunities

Most transportation consultants use database programs to quantify the savings opportunities. The representative sample is re-priced using the benchmarked costs and compared to the current costs. Skilled consultants will also be able to provide “What-if” scenarios; What if we distribute from Indianapolis, Indiana instead of Memphis, Tennessee? What-if we add distribution nodes to our existing network? What is the cost impact of adding a warehouse versus the transportation cost savings generated by shorter travel distances?

Step Four- Implement the Plan

Shippers run lean organizations and do not have resources available to run a cross-functional project. Hiring a consultant to run with it is a cost effective solution, and can be justified by stating the project is expected to generate a return in savings. Most transportation improvement plans include a request for proposal. This is a core competency with transportation consultants. The better ones use a reverse auction to achieve results. The way it works is that the bidders are bidding apples-to-apples and the auction provides an opportunity for bidders to match competitor's pricing, so price differences are now removed from consideration and service becomes the decision's focal point. The reverse auction strategy is a key driver to reaching optimization.

Step Five- Create an Exclusive agreement and Lock-in Performance Expectations

Accountability is the cornerstone of any agreement and it's crucial that a transportation program hold the selected Carrier accountable for performance. Exclusivity enables the Carrier to leverage the volume with their outside network partners and makes them more efficient while it simplifies the account management for the Shipper. One strategy is to include a penalty and incentive clause. If the Carrier is late delivering shipments then they need to experience consequences of providing poor performance. Also, the Shipper should incent the carrier to over perform. This provides a balanced approach to the agreement for the contract period. Lastly, the Shipper and Carrier should routinely get together and review each other's business as this ensures that current and future requirements will be met.

Expected Results

A well managed transportation program can have a major impact on a company. Below is a comparison of transportation program attributes "With" a consultant's expertise and ones "Without" their help.

Category	WITHOUT	WITH
Freight Rates	20% Higher	Market Competitive
Assessorial Fees	Several: Carrier controls them	Few: Governed by Industry or Market
Mode Usage	Often over specified	Meets business needs
Tariff Structure	Complex, hard to administer	Simplified and Easy
Carriers per mode	Many	One

Act Now for the Bottom Line

If your company hasn't reviewed its transportation program this year then now is the right time. If you don't have the resources then it makes perfect sense to hire an independent consultant as a cost effective solution. A consultant can facilitate freight savings by providing analytical horsepower, broader industry perspective, and the necessary resources to run the improvement project. Accountability is critical, so when you hire a consultant, seek an agreement with a performance guarantee and make the consultant accountable too.

About the Author:

Charles Popick is the Principal of CPC Consultants and provides supply chain and transportation optimization consulting services. Charles has over twenty years experience as a Logistics executive and consultant in multiple industries.

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