

Four Fast Ways to Cut Transport Spend

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Transportation costs have become a bullish line item in virtually every corporate budget. Fuel costs have hit an all-time high and companies' shipping needs are only becoming more complex. No wonder carriers are raising rates and transportation costs are rising.

But the truth is, many companies simply lose control over transportation costs as shipping demands grow more complex. Costly transportation spend management mistakes include:

Auditing, or lack of. It's no secret that some carriers intentionally issue cryptic invoices and inaccurately bill shippers at an astounding rate. Without proper audit procedures in place, companies can waste an alarming percentage of their overall transportation spend.

Failing to benchmark spending. Many transportation managers are surprised to learn that a company with the same shipping characteristics may pay up to 50 percent less for the same services. An average company that spends \$1 million annually on transportation loses approximately \$1,000 daily if it does not benchmark spending.

Leaving refund dollars on the table. Companies throw away profits when they fail to claim refunds for service failures. While it can be a cumbersome process, it's well worth the effort.

Choosing the wrong shipping methods. No matter how large their logistics department, many companies still fail to optimize distribution networks and choose practical shipping methods.

Recovering Transport Spend

Fortunately, logistics managers can take four quick actions to get a better handle on transportation cost increases.

1. **Justify your carriers' costs.** The difference between what you and your competitors pay for shipping often comes down to profit margin and savvy.

Receiving a fair, justified rate from your carrier requires a detailed understanding of your internal shipping characteristics. You can gain that understanding by determining your average shipment weights, dimensions, and zones; pickup and delivery densities; and the type and frequency of accessorial.

2. **Debunk discount myths.** Discounts can be plagued with hidden costs. Your contract may include a 20-percent discount on all packages weighing less than five pounds, for example. But, if you didn't read the fine print stipulating minimum charges apply, you may receive only a five-percent discount.

The key to avoiding discount ploys is analyzing the "effective incentive" based on your own shipping characteristics rather than the "contracted incentive," which is a one-size-fits-all carrier approach to discounting. Also be wary of additional hidden costs such as fuel and accessorial surcharges.

3. **Check the addendum/contract language.** Addendum fine print can be a major cost pitfall. Engaging a third party to review contracts can mitigate this risk. Regardless, ask your carrier the following questions to see how they impact your shipping expenses:
 - Do all products contribute to discount calculations, especially with revenue commitment discounts?
 - Are net charges or gross charges used when calculating rates?
 - Do accessorial charges contribute?
 - Do discounts apply to all different types of billing—for example, prepaid, freight collect, and third party?
 - If the contract uses rolling averages, what is the time period specified? Does that coincide with seasonal shipping highs and lows?
 - How do minimum charges impact discounts?
 - What is the process for reviewing contracts and addendums?

4. **Evaluate the competition.** Periodically evaluating competing carriers is a must. Many companies select a carrier, then blindly renew its contract. You don't have to be unhappy with your service to justify an evaluation.

It's important to keep carriers on their toes. You may be surprised to see a positive impact on customer service levels.