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Are You Paying Too Much for Transportation?

Questions to Ask Yourself when Searching for Savings within Transportation. By Stefanie Esposito, Director of Implementation, BridgeNet Solutions, Inc.

In today's economy, companies are looking for any opportunity to cut costs, and transportation is usually one of the first areas that is assessed for possible reductions. While many companies are spending more time and attention on controlling their transportation expenses, the truth is that they are often overlooking the areas that will yield the most savings. Below are 10 questions you will want to ask yourself to help identify whether there are opportunities for savings within your transportation budget.

1. Are my providers looking at my unique shipping profile when determining rate and fee structures?

Providers usually use standard expense models in order to determine the rates that will be offered and fees that will be assessed to your company. This means that your provider may be using average statistics from other companies with similar shipping expenses to determine your rates and fees. If the statistics used are less favorable than your actual shipping statistics, you may be paying too much on transportation. Generally, you don't want your provider to compare your company to like companies to determine fees; you want them to use your unique shipping characteristics.

2. Are my rates in line with market standards?

Everyone would like to think they are getting the best possible rates from their providers, but many companies are not sure how their rates actually measure up according to the market. If you have not put your transportation volume up for bid in over a year, it may be time to initiate a formal Request for Proposal (RFP). An RFP can help you determine if your rates are in line with market standards.

3. Does my agreement offer protection against increases on fuel and transportation charges?

Rates will fluctuate on an annual or more frequent basis. For companies trying to control their costs, putting rate increase caps into place can offer some control in today's volatile market. Fuel has been a large factor in companies' transportation expense since the spike in fuel costs in 2008. By including fuel relief in your carrier agreement, you offset some of the extra expense associated with rising fuel costs. While you can't expect to eliminate increases of all charges, putting relief into your agreement could help your company control current and future transportation expenses.

4. Does my agreement offer cost benefits based on my shipping characteristics?

When evaluating your agreement, you will want to make sure that you have the most competitive pricing in the volume that makes up the majority of your business. It is best to run a quick analysis based on package or shipment level detail in order to determine what services, locations, and volumes make up the majority of your shipping profile. Evaluating these items will help you determine how each discount offered affects your bottom line.

5. Have I accurately determined when I should be using smaller local providers versus a global provider?

As logistics professionals, we all understand that the more volume you ship, the greater



opportunity you have to leverage that volume and achieve more competitive rates. We also know that it is usually most cost-effective to choose a provider that has the ability to service the majority of your volume. Nevertheless, there are still situations in which it is beneficial to use a small provider. With all major providers, you are bound to notice areas in which their network is not particularly strong, and that cause you to experience higher transit times and higher expense. If your volume is significant enough in these areas, it may be more cost-effective to use a smaller provider that specializes in servicing these regions, as you may be able to achieve faster delivery to your customers at cheaper prices.

6. Is your company's routing guide being followed?

Routing guide noncompliance can result in increased transportation expense. The key to ensuring that your routing guide is being followed is to make sure that you have total visibility of your supply chain. Once you have visibility, you can put measures into place that will correct noncompliance issues. Your preferred provider can also be a good source for helping to correct these issues once they have been identified.

7. Am I locked into a multi-year agreement with my provider?

If your current provider agreement has a multi-year duration, it may help you control your transportation expense in the long term; however, you shouldn't let a multi-year agreement prevent you from renegotiating your rates. Most companies can reopen their carrier agreements at any time, provided they give the appropriate notice. If the market has changed since you signed your agreement, you may be overpaying on your transportation.

8. Do I have visibility of my supply chain?

The key to controlling and minimizing costs is to have visibility of what is going on in your supply chain. True visibility means being able to see summary and detail reporting of all shipments within your supply chain at any given time. If the visibility is there, this allows companies and/or their third party analytics service providers to analyze the company's processes and identify opportunities for supply chain cost reductions and optimization.

9. Am I controlling my inbound volume?

If your vendors and suppliers are sending your product prepaid and then billing shipping charges back to you, or are incorporating these charges into product costs, you may be overpaying for these shipping charges. By controlling your inbound volume and requiring that your vendors ship on your account numbers, you have the opportunity to not only leverage more volume to your advantage when negotiating with your carriers, but to save money on each transaction coming from your vendors. Vendors will often add additional handling fees before invoicing the shipping fees back to you.

10. Am I auditing my parcel and freight bills?

Auditing invoices is by no means a new concept, but a surprising number of companies are not doing it, or are only narrowing their audit to specific categories, allowing overcharges in other areas to still occur. If you trust your provider is billing you accurately 100 percent of the time, or are only auditing certain items—for example, Guaranteed Service Refunds—you are likely overpaying your service provider. By auditing your entire invoice, you will not only save on your expenses, but make your providers pay more attention to your shipments.