



## **Gaining Control of Inbound Shipments and Savings**

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March 15, 2010

In a standard inbound supply chain, a company's purchasing department makes an agreement with a preferred vendor for raw materials. Those raw materials are then ordered to fit current demand. The vendor produces and ships the raw materials, making sure to invoice the company for all of the shipping expenses. The freight charges are inflated to create a profit for the vendor, and then itemized on the invoice. The invoice is immediately directed to the purchasing department, which logs freight charges under a "freight in" or similar charge code, along with overhead expenses. The purchasing department, not trained to recognize unnecessary or hidden charges in inbound freight invoices, notices no billing discrepancies.

Why isn't the logistics department involved in the process described above? Well, one reason may be that when it comes to how inbound-related expenses are handled, companies are used to the status quo, and simply don't think to refer to their logistics department for cost-saving solutions on the inbound side. This may seem unlikely, but it happens much more often than we'd like to think. I know of one fast-growing retailer who knew his company was losing out on inbound savings as a result of the company's reconciling process, but instead of referring to his logistics department, actually increased the number of employees in his purchasing department. Obviously, this was not the best solution. It was costly to hire, train, and manage new people, and simply having more people on staff didn't help the company uncover any significant inbound-related savings.

Unfortunately, scenarios like I've just described aren't all that unusual. Purchasing departments typically control all inbound merchandise and freight charges, and logistics departments, the distribution of outbound shipments. As a result, one third of the average company's shipping expenses winds up being determined by a department that isn't directly involved with logistics. One third!

Of course, some purchasing departments are better equipped to deal with inbound costs than others. Because purchasing departments deal directly with vendors on a regular basis, they are often in the best position to handle and monitor inbound costs. That said, if you're a supply chain manager who suspects that inbound savings are not being uncovered, for whatever reason, it is probably going to be up to you to work with your purchasing department to implement processes that will allow you to increase your company's inbound savings potential.

### **Determining the Amount of Controllable Inbound Shipments**

Most supply chain managers know that the majority of potential savings found within any global supply chain are most often located within inbound expenses. To begin locating your company's inbound-related savings and reaping their benefits, there is one thing you can do today in an effort to get the ball rolling: determine the amount of your inbound shipments that are controllable.



To determine the amount of inbound shipments that are controllable, it is necessary to monitor both the freight charges itemized on your vendor invoices and the hidden charges vendors may add to the cost of merchandise.

To monitor the freight charges itemized on your vendor invoices, you may wish to use a general ledger system to monitor the charges associated specifically with vendors. If it is cost-effective to do so, you may also want to partner with a third party that can investigate and validate rates on your behalf. The same third party may also be able to help with your speed in handling issues by providing you with summarized reporting that could prove to be too difficult to create regularly and accurately on your own.

Hidden charges are much more difficult to monitor. Often, vendors mask hidden charges by including them in the cost of goods. One of the first things you can do to try to unmask these charges is request that your vendors only use your company's designated account numbers for all shipments. If a vendor uses your account numbers, the visibility of your actual spend should improve greatly, which, in turn, should allow you to validate rates and monitor routing guide compliance much more effectively.

Another reason your vendors should use your company's account numbers is because it will give you leverage during rate negotiations with carriers. The volume associated with your account numbers shows your carriers just how much you are truly worth to them as a client or potential client. If you have volume that was "lost" because it was shipped under a vendor's account number, you will have a difficult time proving the spend your company associated with that volume. You will also have a difficult time backing up any claims you may wish to make regarding service issues that may have arisen as a result of shipments being delivered under a vendor's account number.

Once you have seen to it that your vendors are using your account numbers for every shipment, you will need to make a second request-this time, to your carriers. Ask that your carriers use a monitored process to determine all freight charges. (Your preferred carriers should always be willing to provide you with itemized invoices that show all of the unique charges for every shipment.) Once this process is in place, your visibility will again improve because you will be able to view any shipment details that vendors may have hidden or simply not made available to you.

Here's a quick list of the items you should ask your carriers them to observe:

- Pickup date
- Delivery date
- Service Level
- Weight/DIM weight
- Accessorial charges

There are several benefits to monitoring the items above. When your carrier keeps track pickup dates, delivery dates, and service levels, your receiving department is not burdened with having to keep track of them manually. In addition, it becomes easier for you to discern late deliveries. By monitoring weights/DIM weights and accessorial charges, you can successfully locate where excess spending is occurring and which vendors may be shipping improperly and causing unnecessary additional charges to accrue.



When you receive your monitored information from the carrier, which will probably be more practical to receive electronically rather than by way of paper invoices, cross-reference it with your current inbound history to make sure that as many inbound shipments as possible are being shipped by your preferred carriers under your company's account numbers. You should also compare what your carrier is actually charging you with what you agreed to be charged per your carrier contract. Again, if it is cost-effective to do so, you may choose to partner with a third party data analytics provider that specializes in making these types of comparisons in order to ensure that your data is completely accurate and impartial, and your findings easily identifiable. Finally, when your analyses are complete, use your final data to question and correct any discrepancies.

The key to uncovering significant inbound savings as quickly as possible is determining the amount of inbound shipments that are currently being controlled and the amount of shipments that need to be controlled. In doing this, you will not only improve communications with your purchasing department, which can only help to ensure ongoing or additional savings in the future, but uncover the powerful logistics savings potential that can improve your company's bottom line in the here and now.

*BridgeNet Solutions <http://www.bridgenetsolutions.com/> specializes in helping companies to achieve supply chain cost reductions through data analytics software.*

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