Anticipate and Manage Your New Business's Supply Chain Costs, by Aaron Samuels

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How exciting it is to start your own business! You're inspired by your unique business concept, the idea that you are going to be taking home more of your hard-earned dollars—eventually, and the fact that building your business from the ground up really does feel more like a labor of love than, well, just labor.

Unfortunately, even if you're producing a great product, your basic operations are running smoothly, and you have a well-trained staff in place, inspiration can turn quickly into desperation if you don't accurately anticipate your business's supply chain costs.

Things that can seem like minor costs, such as the costs of purchasing boxes, tape, and other packaging materials, are costs that can quickly overstretch your budget. When these costs are compounded by the costs of working with a parcel or freight carrier that may not be meeting your shipping needs in the ways that you need them to be met, you could be back at the drawing board before your second quarter.

As the owner of a new business, what can you do to make sure that supply chain costs don't put a quick end to your new and exciting entrepreneurial endeavor?

1. Select the right carriers.

There are some important steps in the carrier selection process that you will want to address sooner rather than later. When choosing a carrier like UPS, FedEx, DHL, or a smaller, local carrier, you should evaluate their pricing, services, and customer satisfaction rates. Ask questions in order to determine if the carrier is a good fit for your facilities. How early, late, and often can they pick up or deliver in order to meet consumer demands? How will the carrier integrate their hardware or software into your facilities to make your jobs, both on the floor and in accounting, easier? In some cases, you will need a carrier that is really hands-on, so learn how each carrier plans on filing paperwork, handling international goods, managing hazardous materials, and dealing with any special requirements you may have such as inside deliveries or white-glove services.

Keep in mind that it will probably be in your best interest to place the bulk of your shipments in the hands of one carrier and any shipments your primary carrier can't handle in the hands of a secondary carrier. As time goes on and your business grows, you will be able to leverage the amount of shipments you place in the hands of your carriers and achieve better shipping rates. Having a primary and secondary carrier rather than two carriers that share shipping tasks more or less equally can also make it easier for you to track your shipments and manage your invoicing and payment processes.

If your business begins making large, frequent shipments, or expands quickly at a certain juncture, you will find there is a tipping point at which it will be more cost effective to draft carrier contracts rather than use carriers' standard rates. These contracts can be formed at the very beginning of a business, but it is typically better to wait until you have at least 52 weeks of shipping records that accurately reflect your volumes and service needs before you form a formal carrier agreement. Waiting until you have enough experience under your belt to be able to accurately forecast your future shipping needs can also give you an advantage at the negotiations table.

2. Engage in solid coding and tracking practices.

Internally, small businesses must use their accounting systems to code and track shipping charges so that senior management and those at the executive level can see the impact of logistics expenses. Coding and tracking should result in reports of split inbound and outbound shipping expenses. You will need an accounting system that can generate accurate reports and manage or support your general ledger coding. There are several programs out there that are designed to help you keep track of your inventory, deliveries, and shipments, and that will break down the times and costs allotted for each transaction. A good accounting system will make it easy for you to see where you might need to cluster orders or become more efficient in other areas. A simple Internet search for "compare accounting software" should yield numerous links to websites that will help you research and select the system that's right for your company.

3. Negotiate better rates and terms.

Did you know that your company has the ability to bargain with carriers when it comes to shipping fees, accessorials, surcharges, and services? One of the reasons coding and tracking your shipments is so important is that it allows you to develop the data you will need to prove the worth of your consolidated shipping volume. Knowing how profitable your volume is to the carrier puts you in a powerful position. Shippers should know how many packages, on average, are being sent frequently to specific zip codes. A carrier's profitability can be a difficult thing for carriers and shippers alike to gauge without the aid of a third-party supply chain solutions provider, so you will likely need to outsource at least some of your more complex data analytics-oriented tasks. Outsourcing these tasks is usually worth the investment. Armed with the right data, all shippers have the ability to negotiate reductions in carrier fees and see that critical service requirements are met.

Another way to keep spending lower is to work with your third-party supply chain solutions provider to perform regular audits of your invoices to determine if you (and your customers) are being overcharged when service guarantees and/or delivery times are not met. By working to receive overcharge refunds, you may even be able to pass shipping savings along to your customers.

One common problem that many new business owners face is the cash crunch created by customers that want net 30 terms on invoices and carriers that typically want terms that are net 14 days or less. One way to avoid a cash crunch is to negotiate 30-day terms with the carrier. This can usually be achieved easily, provided your company has a good credit history and record of paying carrier invoices.

4. Streamline internal operations.

Don't neglect your in-house shipping responsibilities. A carrier is only efficient if packages are ready for pick up on time, deliveries are processed rapidly, and the individual costs of each shipment are accurately assessed.

It's never too early break down your supply chain processes and define who is in charge of what supply chain functions. Knowing who is in charge of what will help you address inventory, packaging, shipping, receiving, and accounting challenges expeditiously and appropriately. It will also encourage your employees to gain expertise in certain areas.

When it comes to hiring logistics personnel, your first priority should be to find someone who can manage your outbound logistics processes and monitor outbound expenses. Outbound volumes are the easiest volumes to control internally. Your outbound logistics manager should know how to set up the staging areas that you need to consolidate shipments and have the ability to access your current outbound rates so that he or she can either spot quote or research the lowest-cost carrier for each outbound shipment.

As your company grows, continually evaluate your company's transportation spending, logistics needs, supply chain processes, and carrier services. Being on top of your logistics-related costs and savings at every step will help you make the long-term vision you have for your company a reality.

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