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The Benefits Of Cost Control For All Inbound Merchandise

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It's no secret that the majority of a company's logistics expense is determined by two segments: inbound raw materials and outbound finished goods. What does sometimes mystify companies are the reasons why the largest savings are often found within inbound materials.

Logistics departments are usually in charge of the distribution of all outbound shipments, and purchasing departments, of all inbound merchandise and freight charges. (Inbound freight consists of all raw materials, supplies, and packaged goods from vendors.) Due to this division of control, over one third of most companies' shipping expenses are determined by a department that is not directly involved with logistics. This means that a logistics department may not necessarily be held accountable for the expense of the company's inbound shipments, or alternatively, it may be accountable for inbound freight expenses but uninvolved in the decision to bring in a product.

Here is an example of the inbound supply chain of a standard company — or "ABC Company," as it has been nicknamed below:

- ABC Company's purchasing department strikes an agreement with a preferred vendor for raw materials.
- Raw materials are ordered to fit current demand.
- The vendor produces and ships raw materials.
- Shipping costs for raw materials are billed by the carrier to the vendor.
- The vendor invoices ABC Company for all of the inbound raw material shipping expenses.
- Freight charges are itemized on the invoice. (The vendor inflates shipping costs when billing for freight in order to create a profit center.)
- ABC Company receives an inbound freight invoice.
- ABC Company properly allocates material costs to the purchasing department.
- ABC Company allocates freight charges under the "Freight-In" charge code (which is usually coded along with overhead expenses).

What role does ABC Company's logistics department play in this process? The obvious answer is that it doesn't play any role. And because it doesn't play a role, it wouldn't be far-reaching to conclude that the inbound freight charges are being consistently overlooked, and rarely, if ever, questioned. The bottom line is that if nobody is being held responsible for the expense, nobody is trying to control it.

There is a bright spot, however. While controlling inbound freight is a difficult process, it can also be very manageable. Your goal in controlling inbound freight should be to get as much of the inbound materials shipped by your preferred carriers — using your account numbers.

Some of the benefits of controlling inbound freight are:

- Reduction in costs due to lower freight charges.
- Leveraged increase of carrier volume for greater discounts.
- Enhanced visibility of inbound shipments.
- Proof to vendors that you are monitoring costs.

The first step to controlling a company's inbound logistics is to determine the amount that is controllable.

There are two types of inbound freight that can be controlled. The first type is the freight that is itemized within a vendor's invoice under "Freight Charges." The second type is the freight that a vendor hides within the cost of the merchandise.

The first type is the easiest to control. An accounts payable department will usually code these itemized charges under a “Freight-In” code of some kind. This could and should be easily queried per vendor by the accounting department.

The second type is significantly more difficult to control. In order to find the vendors who are adding freight charges to the cost of merchandise, a company must monitor the inbound shipments from carriers. Most global carriers have the ability to provide a monitored process for anything en route to a company’s specific address or addresses. This is true for all parcel carriers and many nationwide/global freight forwarders, truck and LTL carriers. A manual process can also help determine the freight; however, a manual process would require that a receiving department keep track of everything delivered (including the carrier, weight/DIM weight, date, etc.).

No matter which of the above processes you use, your results must be cross-referenced against your logistics department’s current inbound freight history in order for you to determine what portion of your company’s freight is already being controlled.

Once the amount of controllable inbound freight has been determined, companies should contact their carriers and obtain attractive rates for future volume. Partnering with a larger or global/national carrier would prove beneficial at this point; vendors cannot always use smaller, regional carriers, which can make the implementation of an inbound program more difficult to execute.

After rates for future shipments have been contracted, a company can begin building and then distributing a corporate routing guide. The routing guide should first be distributed to those vendors with freight that is itemized within their invoice. This usually accounts for the majority of all inbound freight. Vendors should be able to simply switch carriers and start shipping using the company’s preferred inbound account number. Some hiccups can be expected during this process, but relatively-speaking, the transition should be an easy one. Send priority routing guides to those vendors that have the largest dollar amount in freight expense.

Vendors whose freight charges are built into cost of goods will be much more difficult to convert. In order to convince them to comply with a corporate routing guide, your purchasing department may need to explain that the goal is to eliminate the freight charges. Taking this stance should help prove to larger vendors that your company is in control of its expenses, which may make them more likely to convert. The participation of these vendors is important because they will add to the total freight volume and help you to leverage better discounts on your carrier contract.

The mysteries of inbound materials and the sometimes elusive savings within them can be difficult to solve. There are several variables and items to consider. Still, the processes and steps outlined here should increase the visibility of your inbound merchandise. It is this visibility that will ultimately be responsible for the reduction of your company’s total logistics expense.

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