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How to turn in-bound freight charges into savings

By Niko Michas

Do you have control over the cost of each inbound shipment within your supply chain? It can be extremely difficult to manage your company's inbound materials, let alone uncover all of the savings that may potentially be found within them.

If your company has a decentralised global logistics network, your plight will be further complicated by the need to determine your company's current inbound shipping practices as they are being conducted by different departments around the world.

Yet analysing your company's inbound current shipping practices on a global level is the best way to find out the actual amount of inbound-related savings that may be achieved.

Why focus on inbound-related savings?

Increasing visibility of inbound shipments is often the first step to reducing a company's total logistics expense. Ultimately, visibility is what allows companies to reduce costs through lower freight charges.

It empowers companies to prove to vendors that costs are being monitored internally, giving them leveraging power during negotiations, and, most importantly (or most profitably, in most instances), the ability to increase carrier volume in order to achieve greater discounts and better rates.

To uncover the amount of inbound-related savings that your company may achieve, you must first locate the amount that you can control.

To uncover this amount, your company's accounting department should query the itemised charges per vendor, and place them under one freight code.

The freight that a vendor masks within the cost of inbound freight must also be determined.

This can be somewhat challenging, but if you can find out which vendors are adding freight charges to the cost of merchandise, you should be able to determine the amount that is being hidden.

Ask yourself which vendors are adding freight charges to the cost of inbound merchandise.

If you are using a major carrier, you should be able to request that a monitored process be used in regards to goods that are being shipped to a particular address.

Manual processes can also help determine the freight, but there is a downside to this solution: a receiving department will have to maintain detailed records of everything delivered.

Ask your global freight forwarders, truck or LTL carrier if they can provide you with a monitored process before implementing a manual process.

Whichever process you use—monitored or manual, or a combination of the two, the information you obtain should be cross-referenced against your logistics department's current inbound freight history in order to determine what portion of your company's freight is already being controlled.

Why go to all of this trouble? Most likely, your company's logistics department probably heads the distribution of all outbound shipments. At least, this is true for most companies.

Yet inbound merchandise and freight charges are usually controlled by a purchasing department.

This division, on average, causes one third of a company's shipping expenses to be determined by a department that is not directly involved with logistics.

By finding out which vendors are adding freight charges to the cost of your company's inbound merchandise, you can begin to streamline all departments, centralize your company's total logistics network, and hold the appropriate departments accountable for logistics expenses.

Here is one example of the type of division that occurred between one prominent retailer's purchasing and logistics departments:

A well-known retailer's purchasing department made an agreement with their preferred vendor for raw materials, which were ordered according to current demand.

The vendor then produced and shipped the raw materials, making sure to invoice the retailer for all of the shipping expenses.

In order to create a profit center, the vendor inflated the freight charges, and itemized them on the invoice.

The retailer allocated the costs to its purchasing department, which didn't notice the "hidden" freight charges, which were listed under a charge code that was coded along with overhead expenses.

The retailer's logistics department didn't even have an opportunity to question the inbound freight charges, costing the retailer hundreds of thousands of dollars annually.

What about your company?

Is your logistics department currently involved in the processes described above, or are inbound-related expenses affecting your budget unnecessarily because no one is watching out for inflated freight charges?

Vendors can and do often inflate shipping costs in order to create an additional profit center for their company.

A strong logistics network should have processes in place that enhance its leveraging power when it comes to negotiating with vendors and handling vendor costs.

By having data that backs up claims that shipping costs are being inflated, you should be able to make a number of beneficial requests.

Would you like to see certain shipping costs included in purchasing costs? Maybe your company can save on inbound goods that are shipped directly from the vendor.

At the very least, you should be able to effectively ensure that your vendors use only your specified account numbers.

You should also be able to effectively convince them to go with your preferred carrier or carriers.

Your ability to productively negotiate with your preferred carrier or carriers will be improved, too, of course.

Once you have uncovered the potential inbound-related savings that can be achieved, you will likely want to reopen carrier contract negotiations.

In reality, many companies choose to begin this process while they are working to determine their potential savings.

Vendors and carriers can both be great partners when it comes to helping you achieve inbound-related savings, but unless you know more about your company's shipping practices than they do—and can prove it, everyone is in the dark.

The key to improving your company's bottom line is increasing your visibility, and then taking action to reduce or quash excess inbound freight charges.

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Michas has over 12 years of experience in logistics and supply chain management.

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