It's still all in the numbers

Poor quality shipping and freight cost data makes you vulnerable as carriers look to improve profitability. Here's what you can do about it

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Freight rates are on the rise in 2011. These increases are being driven by a broad range of forces including tightening capacity, driver shortages, increasing fuel costs, government regulations, improved carrier costing systems and cost increases. To mitigate these increases, the onus is on shippers to do everything possible to skillfully manage their freight programs.

In 2006, I wrote an article entitled, "It's all in the Numbers." In that piece, I highlighted the need for shippers to manage their freight data effectively. Detailed, quality shipment data can allow shippers to identify consolidation opportunities, to address chronic operational inefficiencies that result in accessorial costs, to highlight "maverick" spend (e.g. carriers being used that are not listed in routing guide), to rectify the use of higher cost modes and to create opportunities to construct roundtrips and triangles.

Five years later, these issues are still prevalent with many shippers. In fact, the situation has become even more acute. As business volumes increase, smart carriers are focusing on yield management, the process of maximizing profitability on every lane. Shippers that are paying rates below market levels are being targeted for rate increases or risk being "fired" by their carriers. Manufacturers are also facing increased pressure from large retailers to convert their prepaid programs to collect and let their customers manage the carrier relationships.

Shippers with poor quality shipping data and inaccurate freight cost data place themselves in a vulnerable position. Here are some things to look out for.

Freight Density

LTL shippers pay, in part, according to the density of their freight. The rate differential at varying densities can be significant. Shippers without accurate product descriptions and freight densities run the risk of paying a premium to move their freight. Many LTL carriers perform scaling and cubing studies, particularly on new clients, to check the density of their freight. Shippers that do not have a good grip on the volume of freight being transported at different densities place themselves at the mercy of carrier costing evaluation studies.

Mode

Freight databases need to capture the mode used. This data allows companies to detect patterns that are indicative of production problems, inventory shortages or overzealous sales personnel. Being able to track changes in the percentage of small parcel to LTL freight or LTL to truckload can provide warning signals of operational or supply chain shortcomings.

Segregation of Freight Charges

A good freight database contains segregated line-haul costs, fuel costs, duties, itemized accessorial costs and taxes. It allows companies to have visibility into the application of fuel surcharge formulas, to identify currency surcharges and processing fees and to see any patterns of extra charges that may be indicative of poor business practices or unscrupulous carriers. They may also indicate that certain carriers are applying incorrect rates or issuing balance dues to see if they can secure duplicate payments from shippers with weak accounting systems.

Transit times

Service performance is critical to the success of many companies in this highly competitive world. A well-structured database contains the origin and destination of each shipment, including zip codes and postal codes, the port of entry and the carrier. They allow shippers to track actual versus promised service levels to see where there are breakdowns (e.g. late pickups, late deliveries) or delays while en route. They can signal why and where fines are being assessed. They may highlight technological challenges or that certain carriers are not using the latest customs clearance process.

The jobs data released recently from the US highlights that their economy is on the upswing, albeit slowly. With some truckers reluctant to make major investments in equipment, this will limit growth on the supply curve. This sets the stage for more rate increases later in the year. Since you can only manage what you measure, creating a detailed and accurate freight database will help strengthen your company's hand at the negotiating table. CT&L