



a critical question

Is your freight transportation strategy in alignment with your business strategy?



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One of the most enjoyable aspects of our work as consultants is that my colleagues and I have an opportunity to visit companies in a variety of industries. We typically are engaged to help businesses that have issues with freight management. While some of our clients may be best-in-class when it comes to manufacturing or retail, they are often not as skilled in managing freight transportation.

We often notice that their freight strategies are not aligned with their business strategies. In fact, the strategies often inhibit these companies from achieving the bottom line results they are so desperately seeking. Here are some of the things that we commonly observe:

Many companies focus on the outbound movement of their freight to their DCs, retail stores or customers. They let their vendors control all or some of the deliveries of raw materials or finished products to their main manufacturing or distribution facility. This can produce several negative financial impacts.

For many vendors, freight is a profit centre. They mark up their freight costs and include the inflated cost in the landed cost. By not having control of inbound freight movements, this restricts the leverage a company can have with its carriers when it comes time to negotiate freight rates. It also limits the opportunity to perform consolidations to further reduce freight costs.

We also observe that a number of companies are not providing their clients with the level of service they require. This can occur for several reasons. The carrier may be picking up or delivering the shipper's products at the wrong time, with their transportation network not aligned to the needs of some customers.

Some companies do not have the technology in place to effectively manage their freight transportation. As customer orders come in, shipment requests are placed on their vendors. We will observe multiple shipments coming from the same vendor, going to the same distribution facility, on the same day. The technology is not there to provide the visibility to identify these situations as they are occurring so these shipments can be consolidated into one large courier or LTL shipment.

Inadequate metrics and KPIs are often associ-

ated with weak information systems. While companies will have good financial and operations metrics to manage their business, they will have only rudimentary (e.g. freight cost as a percent of sales) KPIs to manage their freight spend.

Sadly, the auditing of carrier freight invoices is still done in a haphazard way in some companies. Carriers will make billing errors from time to time. These errors can have lasting impacts on a company's bottom line if they are not detected and corrected.

While many companies jumped on the "freight bid bandwagon" during the Great Recession, we frequently hear about transportation managers who are not skilled in conducting these exercises. This is an area where we often receive complaints from carriers. Transport companies take a dim view of allocating time and resources to a poorly constructed bid that doesn't contain sufficient data, correct product weights and dimensions, seasonality factors and other key freight related issues. This can lead to a "garbage in/garbage out" scenario. Some carriers simply don't bother responding to a poorly constructed bid that is designed to "lay the hammer" on their incumbent carriers. Shippers are often not well served when they tender their freight to poorly performing "bottom feeders."

While freight costs can represent 2 to 5% of a company's revenues, freight is a "necessary evil" and doesn't receive the attention or the respect it deserves, from an organizational perspective. We so often find the manager responsible for transportation wearing multiple hats. While companies will go out and hire top notch sales and engineering professionals, they will "force fit" unqualified individuals into the role of Transportation Manager. Without the knowledge, skills and resources, the company gets what it deserves – poor performance.

For an item that can be so important to a company's bottom line, it is puzzling to see so many organizations not give transportation its due attention. On the other hand, for companies that do put a priority on the management of freight transportation and adopt best-in-class freight management strategies, this can be a differentiator to increase margins, market share and profitability. CT&L