FREIGHT RATE INCREASES

What can shippers do to mitigate these?

Freight rate increases are coming this year. The economy is on the upswing. Truck capacity is tightening as driver shortages, government regulations, cost overruns from a very challenging winter and carrier financial prudence all push freight rates in one direction – higher. What can shippers do to mitigate the impact? A lot. Here is my list.

1. Capture your Freight Costs

Take a look at your freight costs and compare them to prior years. Look for opportunities to fix negative trends (e.g. lack of discipline in moving less than optimum size shipments, too much expedited or air freight etc.) that may have arisen.

2. Benchmark your Freight Costs

Obtain rate quotes from carriers that serve your traffic lanes. Compare their rates to yours. If your company ships high volumes, consider obtaining a benchmark freight rate service on at least your major lanes of traffic. The study will at least tell you if your company is paying market rates or higher and identify carriers that provide the same service at lower rates. There are also companies that provide an ongoing fee-based benchmarking service.

3. Standardize your Accessorial Freight Costs

Small parcel, LTL, over the road truckload and intermodal carriers utilize a variety of fuel surcharge formulas. Do your due diligence and negotiate a fuel surcharge that is appropriate for the type and volume of freight your company ships. In addition to fuel surcharges, carriers charge for myriad services (e.g. apartment deliveries, job site deliveries etc.). One of the most common charges is for trailer detention. Very often this can be rectified by ensuring your carriers book scheduled appointment times and arrive on time. Review the top two or three accessorial charges that your company pays and look for ways to reduce or hopefully remove them.

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4. Evaluate opportunities to switch modes

Look at the location of your vendors and customers. Rail service has improved over the past decade and intermodal service can be a viable option on lanes of 500 miles or more in some parts of North America. An intermodal option can help you save money on freight.

5. Conduct a Post-Audit of your Freight Costs

Does your company audit its carrier invoices. Rate errors, whether intentional or unintentional, can drive up freight costs. A freight auditor will identify errors and assist you in filing a claim with the offending transport companies.

6. Verify Routing Guide Compliance

Routing guides should be established for all major lanes of traffic. Every shipper should have its primary and backup carriers identified for every move. Routing non-compliance and load refusals need to be closely monitored to guard against unnecessary cost overruns. Carriers that consistently don't supply their committed capacity should be replaced with companies that do meet your company's capacity needs at the preferred rates that you negotiated.

7. Take Advantage of Technology

Transportation Management Software (TMS) systems help companies route shipments to the best carriers (based on rates, service and capacity) on every lane. They can monitor orders and look for consolidation opportunities. Cloud-based pay as you go systems can be quite cost-effective. Many leading freight management companies offer this capability.

8. Develop a Core Carrier program and Collaborate with Carriers

Look for opportunities to convert spot moves to contract rates with core carriers. Establish honest, open communication with these carriers. Together, look for opportunities to remove redundancies, inefficiencies and excess costs from your operation.

9. Optimize your Freight Network

Search for situations where inbound and outbound moves can be combined into round trips. Are there situations where one move can be connected with another (continuous) move? These types of situations provide you with leverage in carrier discussions and save you money on freight.

10. Take Advantage of Consolidation and De-Consolidation Opportunities

Rather than moving all of your freight in small parcel or LTL size shipments, look for situations where shipments can be consolidated (e.g. shipped in full truckload or partial truckload quantities to a warehouse) and then de-consolidated and shipped to customers. Of course, if your company hasn't conducted a Freight Request for Proposal in the last year or two, this is still one of the best ways to ensure your company pays market rates. Over time, shipper volumes and lanes change as do carrier requirements. New carriers enter the market from time to time. A well-structured RFP is still a very effective way to save money on freight and create a solid routing guide. As we come out of this nightmarish first quarter, shippers should take advantage of the tools available to manage their freight spend.

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