Freight Management is a Team Sport

By Dan Goodwil

Freight costs represent between two and five percent of revenue in many manufacturers and distributors. They are typically the single largest supply chain expense. When transportation costs begin to escalate, the transportation department and the transportation leader can become the "whipping boys" for senior management.

Over the years, we have observed that the companies that are most successful in managing freight costs tend to have a collaborative work environment. They understand that successful freight cost management is most effective in companies where all of the key operating departments — sales, purchasing, production, warehouse and inventory management, customer service, transportation and the customer work together. In other words, freight management is a team sport.

When we visit a new shipper client, there are four things that we typically look for at the outset. They are a:

- 12 month Freight Budget
- 12 month, granular Shipment Activity Report
- 12 month Freight Spend by Carrier Report and
- Routing Guide

A 12 month freight budget displays the projected and actual freight expenditures by mode by geographic area. We also ask to see a copy of a monthly actual expenditure tracking report by mode by geographic area. This displays how the business is trending and highlights any off-plan or "maverick" spend. It also tells us if they are managing their freight budget.

The 12 month granular shipment activity report displays all shipments in an origin/destination spreadsheet format. This report displays shipment type (i.e. parcel, LTL, truckload), mode (i.e. over the road, intermodal, ocean, air), carrier, shipment actual weight, shipment billed weight, freight (linehaul) rate, fuel surcharge, and accessorial charges (i.e. mall delivery, waiting time etc.) for each shipment. This report will often reveal poor shipping practices (i.e. sending individual rather than consolidated LTL shipments to the same customer on the same day).

The 12 month freight spend activity report by carrier captures information on the money paid to each carrier, for each mode of transport, by geographic area. This tells us how many carriers are being used in each region and the proportion of the business they each have.

The Routing Guide displays the carriers selected as primary and backup for each mode in each region. Once we review and contrast the data in these four reports, they tell us a great deal, not just about the company's Freight Transportation operation but also much about the other areas of the business. Here are some examples.

Sales Issues

Companies that have a higher than budgeted amount of LTL or expedited freight, may have sales people making commitments to customers on services that fall outside of company norms.

Production Issues

Similarly, companies that experience higher than budgeted LTL or expedited costs may be a result of a variety of production problems. The freight may be coming off the production line so late it is not able to hit daily pick-up schedules or use budgeted or preferred modes.

Warehouse/Inventory Issues

The warehouse footprint in some companies does not allow for an adequate buildup of inventory or necessitate shipping optimized order sizes. It may also reflect inadequate collaboration between central and remote warehouses.

Customer Issues

Customers may not always advise shippers of special promotions or they may make last minute changes to order sizes. In other cases, pallet configurations may result in a poor use of cubic space on a trailer or container.

Transportation Issues

In many cases, we observe a lack of compliance to the published routing guide across multiple company divisions. This can result in the use of carriers that are well down or not even in the routing guide.

Cost overruns are the net result of all of these issues. While much of the responsibility may fall on Transportation, effective freight cost management demands quality data, close collaboration and good communication between multiple departments. The analysis we perform will reveal if the company has the technology (i.e. TMS system) to manage freight. It will highlight "invisible walls" and/or a lack of team work. It may demonstrate a lack of management oversight and discipline. The solutions vary from company to company. They can include any combination of the following:

- *Communication with customers on timing of orders, pallet configurations and other items*
- *Preparation of a quality freight budget and monthly tracking reports*
- *Acquisition of a TMS system*
- *Creation of a Transportation Management Council, com¬posed of representatives of many of the key operating de¬partments, that meets on a scheduled basis to address in¬efficiencies and cost overruns*
- *Stronger management and closer supervision.*

One should never forget that freight costs are variable expenses that can be effectively managed and controlled. Companies with superior supply chains can use them as a competitive weapon.

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