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p. 10

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Three Big Mistakes LTL Shippers Make

Learn how to develop a successful logistics operation by avoiding these common pitfalls

By Anthony Nuzio

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The challenge for today's transportation and logistics executives has never been greater. Consistently facing rising freight carrier rates—annually or even more often—can be tremendously overwhelming. Both small and large shippers are almost always set up to fail in a system where they are tasked with cutting costs and implementing spending controls in an ever-changing marketplace where rates never seem to stay manageable. Missing savings targets are more common than ever. But it doesn't have to be this way.

Over the years, transportation and logistics consultants have identified patterns of success and failure among their clientele. The difference between a successful operation and a failed one almost always comes down to the planning, monitoring and execution of a program that clearly defines its goals and objectives. However, the planning and execution of such a program can be rife with roadblocks. Three major mistakes often identified as the culprits of a well-planned program can be avoided, as we'll explain in this article.

Mistake 1: Failing to Plan and Measure

Companies around the country are not making factual projections about freight expenses. The reality is, there's a lack of accountability within the levels of the organization by those who make decisions on how products are to be shipped.

In the case of indirect sourcing, these departments are responsible for products that are typically outside the company's core product lines. If indirect sourcing worked hand-in-hand with the company's transportation and logistics department and coordinated efforts to obtain the best possible service and the best possible rates for all company shipments, major savings in freight costs would be achieved. But having these two groups working under completely different silos will result in much higher freight costs than is necessary.

Some manufacturing companies have purchasing departments that have complete control over inbound raw material shipments. They not only select the vendors, but also select the freight and determine purchase terms as well. Sometimes these departments will purchase goods on a "Delivered Basis" so the company does not have to be concerned with processing invoices for the freight charges, or having to arrange for transportation services.

While the company may not have a freight bill to process for payment, it may incur excessive freight charges because the vendors usually add fees to the merchandise invoice to cover the expense of shipping and prepaying the freight charges.

Without a true cost comparison between what the vendor is actually charging for shipping, and comparing that cost to the cost the company can negotiate on its own, these organizations are continually operating in a vacuum.

There are also the added expenses and operational inefficiencies of having many different carriers transporting inbound products. Companies that consolidate all less-than-truckload (LTL) shipping under one central control within the organization can gain a huge competitive advantage by negotiating multi-year transportation contracts that can reduce the impact of annual general rate increases; standardize base rate levels and fuel surcharges; reduce or completely eliminate various accessorial fees; extend payment terms; and finally, maximize carrier utilization.

Mistake 2: Failure to Implement Comprehensive Invoice Audit Controls

Many companies don't put enough audit controls into their internal audit processes to ensure that all of the freight invoices are 100% accurate before being processed for payment.

Internal accounts payable departments pay invoices based on their own internal timing and often do not adhere to the freight company's payment requirements. That may not sound like much of a problem, until the company finds out that it has not only relinquished its discount on the freight bill due to late payment, but has also subjected the company to collection fees. With discounts now averaging in the mid-80% level, shippers would be severely penalized for paying invoices late.

Most companies process freight invoices internally within the company's accounts payable department. While the accounts payable department has the expertise to process invoices for payment, there is a whole different skill set needed when it comes to processing freight bills for payment. Typically, the accounts payable department would match the vendor invoice to a validated purchase order to ensure the invoice terms are correct and that the price per piece, etc., are also in agreement with the purchase order.

Without a strong understanding of the elements contained in a motor carrier freight bill and how to validate those elements, typical accounts payable departments cannot appropriately audit. Freight bills must be matched to the shipper's bill of lading. Accounts payable could validate that the weight on the bill of lading is the same weight the carrier is invoicing on the freight bill. The team would also be able to validate that the freight bill is the responsibility of the company based on the payment terms listed. But beyond these two basic audit elements, the balance of the audit would remain questionable.

A complete understanding of the carrier's pricing schedules is required to validate if the commodity classification assessed is correct according to the actual product shipped. Additionally, the accounts payable team needs to validate if the freight charge is correct for that freight classification, at the actual weight of the shipment and if the fuel surcharge has been calculated properly and finally, if the bill has the correct discount or incentive applied. Without the required knowledge, there would be no way for the shipper to be sure it is paying the proper freight costs for any shipment.

Mistake 3: Failing to Ask for Help

Most companies are simply unaware that there are outside resources to rely on to ensure their freight costs continually remain under control, and very often these third-party firms provide their services with no out-of-pocket costs to the shipper.

As mentioned earlier, many companies audit and pay freight invoices within internal accounts payable departments, and while that is a very logical process there are some benchmarks that need to be considered. First and foremost is the cost to process invoices internally. Many studies have determined the cost to process invoices internally is as much as $7.00 per invoice. That cost encompasses several elements: cost to receive the invoice, open the envelope, match invoice to various source documents, "audit" the invoice, key the required data elements into a computer system, create checks or ACH payments, place checks in envelopes for mailing, postage expenses and reconciling bank statements after the check has been cashed. Those same studies have concluded that freight and logistics invoices can be comprehensively audited, data collected and reported, invoices paid and no need to reconcile bank statements at a cost of less than $1.00 per invoice when using a third-party audit and payment firm.

Furthermore, an initial audit is often not enough. There is a secondary audit process that every company should also adopt: post-audit services. Companies that perform post-audit services actually audit previously audited invoices seeking out overcharges that were missed during the initial audit process. This service falls into what we in the industry like to call "the no-brainer" category. These companies work strictly on a contingency fee basis, typically 50% of the actual recoveries they obtain as a result of their audit findings. They take all the risk but almost always find money that shippers never knew was missing.

To demonstrate how valuable these post-audit services can be, we asked an executive of one of the top post-audit firms in the country what was the largest dollar amount of recoveries they obtained for a client in one audit? The answer: $9 million dollars in actual refunds.

When it comes to negotiating freight rates with motor carriers, how do you know you have a good deal? Again, motor carrier discounts are now in the mid 80% range for most shippers, so that sounds like a really good deal and in some cases it is, but in some cases it isn't. There are many variables to be taken into account.

First and foremost, if a shipper does not have the ability to benchmark their rates against a vast database of competing shippers and carriers, there is no way to assess if the company has in fact received extremely competitive rates. There are many firms that can provide these services as an outsourced "freight expert" to assist shippers in the benchmarking of rates, establishing specific "target pricing" for a shipper's account and creating contracts between shippers and carriers which establish strong, long-lasting strategic alliances that benefit both parties.

In the end, the most powerful step a transportation and logistics executive can take in controlling rising shipping costs is to plan, evaluate and set realistic goals. By avoiding the aforementioned pitfalls, any company can achieve its goals and stay in budget. You can put the power back in your hands with a few small lessons learned, a lot of up-front planning—and a little help from your friends.

Anthony "Tony" Nuzio is founder and CEO of ICC Logistics Services Inc., a provider of logistics and transportation consulting services. He is a logistics educator and has held positions as a logistics professional for several organizations, including Stauffer Chemical, Kennecott Copper and the Singer Company. He is also the former publisher and editor in chief of the Transport Deregulation Report.