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Transportation Management Solutions

**Transportation and Logistics:  
Are You Managing a Cost Function or Driving a  
Strategic Profit Center?**

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## Transportation and Logistics Are You Managing a Cost Function or Driving a Strategic Profit Center?

With a tough economy, organizations typically look to trim expenses. Over and over, shippers are inundated with emails and phone calls about “how to save money” on their logistics and transportation.

Yes, inbound and outbound shipping is an area ripe for saving money. But, let’s go one step further and turn the outbound shipping function into a strategic profit center with its own revenue stream, its own cost of goods sold, its own desired “upcharge” margin per transaction and predictable return on investment. With transportation being 50% of logistics costs, this is a significant opportunity.<sup>1</sup>

Making money is more exciting than saving money and it’s a positive fact that in transportation business management, the same steps that will make money are similar to those that save. The biggest difference is the to-the-penny science that is necessary when managing shipping as a profit center versus the “good-enough” metrics often applied to a function viewed as a necessary cost center.

Here are three key reasons why it’s so easy to change and manage your shipping as a profitable business unit.

- The customer is presold. The “end customer” is already used to paying the shipping cost. There is no convincing or selling needed as long as the charges are reasonable.
- You can almost control your cost of goods sold. The rate structure is highly flexible and you are the boss. There is no standard pricing and it’s a buyer’s market. Whether small package, less-than-truckload, truckload, ocean, air or rail...how you negotiate—and how you use your rates determines your “cost of goods sold.”
- Reasonably-priced technology now exists to know the true cost of a shipping transaction **before** the shipment so predictable margins are possible.

In this paper, we'll look at the use of technology and shipping rate negotiating services as the two factors that can transform your shipping function into a sophisticated profit center.

### **Cost of Goods Sold: Be Choosy and Negotiate With Your Correct Carriers**

No carrier likes to talk about it. But, shipping—the process of getting goods from point A to point B—is a commodity. Shippers just want shipments performed as cheaply as possible within their service and quality requirements. It's in the shipper's interest to negotiate the lowest possible rates among their core carriers. But, has the correct group of carriers been identified? Here are two points to remember:

- *Know your carrier's business interests:*

Just in LTL alone, there are hundreds of carriers, each with its own set of complex accessorials, lane charges and business discount models. While it's easier to go with “name brands” or the vendor who buys the most dinners, they are never the low-cost providers for every shipping transaction.

The lowest transactional rates are derived when the business interests of the shipper support those of a specific carrier. For example: The shipping destinations of the shipper are aligned with “lanes” of great interest to a particular carrier.

So, even before negotiations begin, shippers should identify carriers who will want and compete for their business. This pays off in the process of negotiating rates in that this group of carriers is already incented to take measures to try to become the shipper's preferred carrier.

There are several ways to do this research and negotiate a favorable rate structure — you can do it yourself, or pay someone to do it. The point to always remember is that the negotiated rates are the “cost of goods sold” for the profit center.

The lower the rate, the more flexibility is built into upcharging for profit, and the shipper has more latitude to offer “free shipping or bundled offerings” for greater customer loyalty and satisfaction.

- *Know your carrier agreements:*

It’s no surprise that transportation agreements are not written to be easily understood or followed correctly. And, when parties who do not fully understand their agreements or know how their rates are actually calculated must refer to these agreements, financially damaging decisions abound.

You won’t find errors until an audit-- if you’re lucky enough to catch them at all. The one thing you can be sure of, is that not understanding your agreements, and the inability to properly determine the shipping cost of every order is costing you a lot of money.

Create an at-a-glance comparison tool for your agreements. To make one, draw columns on a sheet of paper to separate the geographies each carrier specifies. Headings for these should include: Type (inbound, outbound, 3<sup>rd</sup> party), From Geography, To Geography, FAK, Rate Base or Rate (flat, pallet, etc), Direct Discount, Direct Minimum Charge, Interline Discount, Interline Minimum Charge, Weight Limitation, Deficit Weight Limitation, and Pallet Limitations.

## **Technology to Drive Profits**

In the LTL arena, it’s common to see the fruits of tough, smart negotiations with the “correct” carriers go to waste. The best rates on the planet are useless if not properly applied to every order. All too often, it’s because, on any single transaction, the least-cost rates are unknown. In-house transportation administrators often talk of a “gut feel” that’s attained through years of experience when picking the correct carrier. These companies would not be able to implement a profit center.

It's surprising how many businesses operate their transportation business units "by the seat of the pants." Indeed, Adrian Gonzeles, the leading transportation analyst with ACR Advisory, said it well, "despite all the changes that have occurred in the industry this past decade, there's so much that has stayed the same. It never ceases to amaze me, for example, how many companies (big and small, famous and not-so-famous) still manage their transportation operations like its 1997, or maybe even 1977, with spreadsheets, faxes, and telephone calls."<sup>2</sup>

It's no wonder that a recent comparison of shipping transactions Transite conducted on behalf of a \$350 million manufacturing customer found fully 80 percent of the choices they made, according to their recommended weight cutoff for LTL vs. TL, were wrong. The savings achieved by this customer simply correctly choosing the carrier mode ran into the tens of thousands each month.

Estimates and guesswork of "cost of goods sold" would not be acceptable in the product manufacturing environment and the same rigor must be applied to strategically drive an accountable and predictable profit center.

Automated least-cost rating tools simply provide actual cost, including current fuel surcharges, and transit time. With these two pieces of information, every shipment can be sent at the lowest cost within the promised delivery time.

Several products on the market endeavor to accomplish this basic task. They evaluate your carrier agreements including rates, discounts, geographies, accessorials, and limitations (aka: fine print), then output these to a user in customer service, a person in shipping, or directly to your ERP/sales order system.

Some products provide estimates and some provide the actual freight shipping amounts. The former may be sufficient enough for smaller organizations, while the latter enables higher cost savings, and uses such as invoicing and automated freight bill auditing.

Other variations can add customer routing requirements, direct/interline notifications, and other useful information.

These systems automate the profit center within the shipping function by adding up-charges to the freight.

For example: they may up-charge the freight cost by 20% with a minimum of \$10 and maximum of \$150. The system ensures that only service or salespeople see the up-charged amounts for the invoice, and the accounting system records the actual shipment cost for accrual and audit. This method stops the company from eating underestimated costs and enables them to properly recoup expenses.

A key factor is the that today's "smart" technology provides to-the-penny Bills of Lading **before** the shipment happens to ensure the cost of the invoice is identical to the BOL.

Let's take a look when the invoice price is higher than the BOL.

Eg. A shipper expects a 20% return on every shipping transaction.

Initial BOL: \$400

Customer Charge: \$480

Profit: \$80

Profit Margin: 20%

But, let's say the technology failed to note there were accessorials (lift gate fee, residential fees etc) that added another \$40.

Initial BOL: \$400

Customer Charge: \$480

Unexpected fees: \$40

Profit: \$40

Profit Margin: 10%

The point is that technology now exists that can quickly sift through the myriad of factors that account for all of the devilish details that dramatically influence costs so that to-the-penny shipping cost data ensures proper decision making.

Margins move from “win some, lose some” to the more “predictable margin per transaction” mentality of the profit center.

**Be cost effective and quickly implement.**

It’s important to start showing documented results quickly while demystifying and bringing transparency to the shipping portion of the logistics and supply chain. The top providers of such technologies and services can implement “self funding solutions” within 45 days and show immediate, documented results that are meaningful to management and shareholders. The technologies should easily work with SAP, ORACLE, and other ERP providers so that transportation becomes an extension of current data management and financial reporting practices. Generally, best-of-breeds deliver better accuracy, are cheaper and faster to implement than the functional add-on modules sold by the ERP systems.

In summary, through sound negotiations, you’re getting the best prices for your business. Through technology, you’re making data-based business decisions and automating complex processes while delivering excellent customer services—eg. Real-time shipping quotes to customers and tracking information—while instilling time-savings and financial accountability in the shipping function.

On the highest level, you’re bringing the most effective values to your company and customers—lowering true costs, maximizing internal effectiveness...and making money!

**Footnotes:**

1. The CFO’s Guide to Transportation Spend Management, ACR Advisory Group, April 2008
2. Managing Transportation with Spreadsheets and Fax Machines, Posted on Feb 24 2009 | By Adrian Gonzalez