AirCargo World Online Features

Choosing Carriers

Big Cost Savings For Shippers May be Just a Request Away

By Tim Sailor

Today, in an effort to capitalize on technology, most manufacturers, distributors and others who supply the world's shipped goods are focusing their attention on e-commerce strategies and general supply chain issues. They are interested in reaching no markets and new consumers, in other words. This emphasis, however, has overshadowed the impact that lower shipping costs may have on a transportation user's overall logistics picture.

Shipping costs are by far the largest component of logistics, representing a whopping 57 percent of total expenditures. Companies that quantify their carrier costs and engage in active negotiations with their carriers are finding they can lower shipping costs by up to 38 percent or more.

These savings, in turn, will lower total logistics costs by 21 percent. How is that for a return on investment?

There are a number of steps any user of air cargo transportation should go through as they examine what they are looking for in expedited service, what the true costs are and what the impact of those costs will be on your company's budget.

The first step is to generate a Request for Proposal, a seemingly simple enough process but one that can create a foundation for long-term savings if it is handled properly. Too often, shippers outline their shipping patterns without really knowing what how they use transportation every day.

You should start by establishing accurate shipping usage and service requirements. Use historical shipping and invoice data to break out the number of shipments and look at actual pieces and weight, class of service, as well as the actual pattern of distribution between the zones that have been a more important feature of express shipping.

It is extremely important that you take the time to review actual invoices and compare those to the carrier contracts. Most companies will be surprised at all the hidden costs and the financial impact of surcharges.

In some cases, you will discover that your shipping revenue and usage may fall outside or exceed your current contract's rates and services. Gathering data and learning your company's traffic controls the RFP process by setting the criteria and the evaluation of shipments and performance on both sides. One parcel shipper who went through the line-by-line listings in invoices recently discovered that a majority of its shipments were being charged by dimensional weight. This brought the average shipment weight from six pounds to 12 pounds.

In the RFP, we requested a higher dimensional exception and received an exception that generated more than $150,000 in annual cost savings.

It is also important to examine your company's true service requirements. Most companies do this by looking at modes of transportation instead of service commitments and performance. But the gap between air express rates, even for discounted deferred service, and the rates charged by regional parcel delivery companies, trucking companies and other carriers and third parties may bring enormous savings over the life of a contract.

Opening up the service issue allows you more options and possibilities. Once you establish when the package needs to be delivered, you can look at which levels of service and cost meet your real requirements. It may be that you can meet your delivery deadlines with a less expensive routing.

Rates and service, of course, go hand in hand. A key factor in lowering your shipping costs is establishing some rate benchmarks from the different carriers.

This is difficult as transportation rates are extremely fluid and driven by both the markets and the carriers' own internal drivers. Carriers may offer more attractive rates if they are in a growth mode and less attractive rates if they are focused on improving their margins.

Ask around and see how aggressive the carriers have been with other similar-sized shippers. Utilize resources such as professional affiliation groups, trade shows, or outside consultants to help establish the lowest available rates.

Once the groundwork has been set, create a request for proposal that maximizes your service and cost savings goals. Remember, this is the time in the process when you can ask for the moon.

When presenting the RFP to all the carriers, gauge their interest and capabilities to find the right fit. It's important to know the business focus of each carrier, whether they have the ability to back up their promises and how your shipping profile may fit into their business plan. You shouldn't wait until your shipments are backed up on a loading dock to find out that the carrier bid for your business to get a new line of traffic outside their specialty.

It is extremely important at the early stages of contract negotiations to leverage your strengths as a shipper while keeping in mind the carriers' motivations.

As a general rule, most carriers seek an accurate representation of revenue, volumes, and other shipment characteristics. They also are motivated by the opportunity to gain incremental revenue and minimize dilution if they are the incumbent carrier.

Finally, the carriers may offer better rates if you can help them lower operating costs and offer long-term partnerships with growth potential.

A critical area that shippers too often ignore at the RFP process is the carrier's capabilities for value-added services. Most shippers do not take advantage of all value-added services such as electronic billing, shipping automation, customer service support, and other logistics resources.

Electronic billing is probably the most overlooked way to reduce freight costs. With electronic billing, a shipper may recover significant audit savings by recapturing service failure credits or billing and rate overcharges. Upon implementation, most companies realize audit savings of between 4 percent and 8 percent, as well as substantial productivity gains.

Even if your company lacks the internal resources to implement electronic billing, it makes sense to engage a third-party freight payment company to realize these savings. Most freight payment companies work on a contingency basis, charging only a portion of the savings they recover.

Additionally, electronic billing can provide customized data to better manage your own shipping expenditures. Monthly reports can be created which will monitor and measure shipping activity, charge-backs or year-to-date comparisons all down to the user or department level.

Finally, approach the RFP process and carrier evaluations with an open mind. Do not rule out any options and only rate the carriers on their RFP responses and demonstrated services. Look at the value of single-source versus multiple carriers and weigh the potential cost savings against the operational issues.

One way to accurately predict future cost savings opportunities is to apply all proposed rates to the historical shipment database.

When it comes time to award the contract, or contracts, the best choice will be the carrier, or carriers, who have offered better rates, the highest level of services and have worked to continually improve their bid response. There should be a good fit between your service requirements and the carriers' capabilities as well as a good understanding of what the process has accomplished.

Whether you have the time and resources to engage in this RFP process yourself or bring in an outsider, the payoffs are significant. Our experience over the last 5 years has shown that you can produce about a 20 percent up-front rate reduction, a 5-10 percent further reduction through operating efficiencies, and back-end audit savings between 4 percent and 8 percent.

Taken together, a shipper may have the opportunity to reduce total shipping costs by 38 percent and overall logistics expenditures by 21 percent.