



# Supply Chain Solutions That Make Free Shipping Affordable



As we all know, free shipping offers aren't free. Yet, most shippers feel compelled to extend free shipping to their customers, especially during peak season and for promotional purposes. The challenge then becomes how to balance the pressure of not losing money on shipping and still respond to the competitive pressures of today's marketplace.

In order to be successful, shippers need to fully engage in effective transportation spend management techniques. What does this mean? It means that shippers have to ensure they have the lowest possible cost basis from their carriers. It also means that shippers have to stay current with the marketplace and make sure that they are taking advantage of all of the appropriate carriers' supply chain solutions.

Today, shippers have more distribution service offerings from the carriers than ever before. Both FedEx and UPS supply chain solutions offer a range of services that balance cost with transit times and shipment visibility.

Additionally, shippers can effectively utilize the USPS, regional carriers, and international forwarders. So, instead of being forced to use one level of service, and trying to balance that fixed cost against free shipping, shippers can pick and choose the service offering that is the most cost-effective for their customer base, while achieving the service levels they require.

The first step in effective transportation management is to know exactly where your shipping dollars are being spent. Key metrics include detailing expenditures by service level, weight, zone, accessorial spend, and realized incentives. This is readily available and one can access this information from your carrier invoicing or thorough customized reporting. Once you do this preliminary analysis, you will be able to establish baseline transportation costs.

The next step is to take this analysis and compare your usage to your carrier agreements. In many cases, shippers will discover that their agreements are not structured to reflect their actual usage. In order to fix this disconnect, shippers must engage in contract optimization discussions with their carriers.

Customizing carrier agreements is crucial to effective transportation management. Some of the areas that you may want to analyze are minimum shipment charges, realized discounts, targeted incentives for the most utilized weight breaks, and other up front rating mechanisms.

Additionally, you should review the revenue commitments of your carrier agreements. Each and every carrier agreement is customized, and the revenue tiers are theoretically based on your actual expenditures. However, many times these tiers or earned discounts aren't attainable and don't help shippers lower their net shipping costs. In some cases, not all expenditures or services contribute to achieving the additional revenue based discounts.

Another important area to manage is accessorial spend. Most shippers incur additional add-on charges of between 10-30%. It is important to break out the

impact of each of these charges and work with your carriers to mitigate the financial impact. Some of the areas to analyze are residential add-ons, delivery area surcharges, dimensional charges, and fuel surcharge. While it is impossible to customize each of the more than 80 surcharges that the carriers are imposing, it is possible to negotiate those charges that have the greatest impact on your organizations' shipping expenditures.

Committing the time and resources to transportation spend management and contract optimization will significantly reduce your net transportation expenses. With this lower cost basis, your company will have the opportunity to narrow the gap between actual costs and the free shipping programs the market is increasingly demanding.

Once you have ensured that you have the lowest possible cost basis, then you need to make sure that you are strategically sourcing with your carriers' total array of supply chain solutions.

For UPS customers, make sure that you are evaluating all available service offerings including UPS Mail Innovations, UPS SurePost, as well as ground, air, ocean, and international services.

For FedEx customers, make sure you are evaluating SmartPost, Home Delivery, commercial ground, air, ocean, brokerage, and international delivery. Additionally, consider utilizing USPS services as well as regional carriers. These offerings may reduce your costs and achieve your service goals. ■

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