MNDM'S LOGISTICS NEWSLETTER

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TIPS TO REDUCE TRANSPORTATION COSTS

Here are some tips that regardless of whether you have lower freight rates than you had two or three years ago, may save you money. Individually the savings that can be realized from some of these tips may not be spectacular but when consolidated they may be substantial and importantly the cost saving goes right to the bottom line.

Finding the Right Carrier -In the same way that one would choose the right tools for a construction job, so one should choose the right tools with which to effect one's transportation business.
Transportation services are provided by carriers operating many different modes of transportation. For example, there are courier carriers handling parcels and small shipments, general freight less-than-truckload (LTL) carriers, truckload (TL) carriers, as well as pool car freight forwarding and piggyback operations, each of which straddle some of the services of other modes and other carriers. Within each category there are numerous companies specializing in specific geographical areas, either local, regional, national or international.

Couriers/Parcel Post -Couriers are typically able to provide the most attractive level of service and rates in their area of specialty, moving small shipments ranging from 1 to 300 pounds. Do not overlook parcel post as a preferred option for small parcel shipment.

LTL/Truckload - Less than truckload (LTL) carriers are best suited to mid-range shipments sizes destined to diverse locations. LTL shipments are picked up from the shipper, sorted at the carrier's terminal, consolidated with other freight moving to the same destination terminal, and subsequently delivered to the customers.
Truckload carriers offer the shipper the exclusive use of the truck, thereby offering faster service and less handing of the freight. As costly terminal functions are avoided, it is sometimes advantageous to use TL carriers for shipments as small as 5000 pounds or less.

Maximize your payload /capacity - It is important when offering truckload freight that shippers ask for equipment from the carrier to allow for the maximum payload and capacity for the shipment. For example multi-axle equipment is recommended for heavy loads such as steel, whereas high cube freight, such as corn flakes, is best suited for tandem axle – 53 ft trailers etc.

Piggyback/Intermodal -Intermodal service offers the same service as truckload except that the movement is by a combination of truck and rail. The pick-up at origin and delivery at destination is performed by truck, but the main carriage is via rail. The railways have over recent years improved transit times and offer competitive freight costs which make this mode of transport attractive to shippers that are not serviced by rail but can offer large volumes of traffic over the long haul.

Specialized Equipment - An effective method of reducing freight cost is to reduce empty miles. Often shippers have backhaul traffic, but the freight is not compatible with standard truckload equipment - i.e. van freight – flatbed – bulk etc. Today, some carriers operate specialized equipment that can accommodate commodities with different transportation characteristics.. For example, specialized equipment is available to haul van/flatbed, flatbed/dry bulk and flatbed/liquid bulk etc. Since this type of equipment is costly, the traffic volume must be sufficient to dedicate the equipment to specific traffic lanes.
On the other hand, the same result can be accomplished by repackaging the product to take advantage of the equipment availability. An example would be to load bulk dry commodities (i.e. sand) in bulk tote bags, this would give the shipper the flexibility to load flatbed or van equipment rather than bulk equipment only. A detailed cost analysis should be performed to be sure that the freight savings does exceed the additional costs associated with the extra handling and specialized packaging.

Make your Business Attractive to Carriers -
Successful shippers often select a house carrier. Increased volume puts the shipper in a better position

to negotiate performance contracts and freight rates than would be the case if they were using multiple carriers. Increased traffic flows will also allow the carrier to reduce cost by taking advantage of any backhaul opportunities.

Work with your Carrier - Carriers are increasingly proficient in their approach to matching costs. Demurrage is a carrier cost that can easily be avoided by ensuring that the shipping and receiving docks are not congested and that the freight is ready to load when the truck arrives. Proper packaging, documentation, prompt payment of freight bills, and pick-up and delivery times at the carrier's convenience can lead to more positive consideration when negotiating lower rates.

Terms of Sale - Carefully select the most cost-effective terms of sale for both inbound and outbound products. It may be advantageous to buy and sell under freight terms that give the shipper the responsibility for freight charges, if this gives you an element of control and increases your buying power with carriers. If however, you are a small business and are dealing with very large customers/suppliers, they may be in a better position to negotiate with carriers and offer freight costs and service more attractive than you can. If this were the case, it would be more cost effective to utilize their buying power and allow them to pay the freight charges. It is always recommended to price both options. For example when purchasing inbound supplies, have the supplier quote both on a Free on Board (FOB) origin and FOB destination basis and calculate which term of sale is most cost effective when taking into consideration your most competitive freight cost.

Cubed Shipments - Many courier and LTL carriers have a density provision in their tariff. The general rule of thumb is that the shipment density for LTL must equal to at least 10 pounds per cubic foot of occupied space. For example, a 1,000 pound shipment that occupies 120 cubic feet would be rated as a minimum of "1,200 pound ". Shippers who ship bulky goods and incur cubed weights should analyze the way their product is packaged to determine if the packaging is causing unnecessary bulk. Another alternative to shippers that ship both bulky and dense articles is to look for opportunities to mix shipments so that one offsets the other.

Mixed Shipments - Unless properly packed and documented, LTL shipments that contain a mixture of different articles that have different class ratings will be charged at the freight rate applying to the highest classification unless the documents state otherwise. To avoid excess charges, articles of different classification should be packed in separate cartons, and documented separately with corresponding weights on the bill of lading. This would result in the respective rating for each class, resulting in reduced freight charges.

Shipment Consolidation - Based on the concept that larger shipments move more economically that smaller ones – another way to reduce freight costs is to consolidate numerous small shipments into one large one for a portion of total distance.
Consolidation cannot only lead to substantial freight savings, but also dramatically reduce customs brokerage fees on cross-border movements.
For inbound shipments from various suppliers, it is often advantageous to set up or employ a warehouse in a major centre to consolidate small shipments and arrange for regular pick-up for delivery to meet your inventory requirements.
For outbound shipments, warehousing can also be advantageous, because goods can be shipped in large quantities such as several pallets or even partial/full truckload to a warehouse for storage and later reshipped in individual order quantities to the ultimate consignees.
In addition to transportation and customs clearance charges, storage, handling and administration charges would also be incurred. Despite this, distribution warehousing can still be significantly more economical than direct shipment.

Stop-off or extra pick-up - Sometimes two of more shipments can be consolidated onto a truckload carrier who can simply drop shipments off at various points along the route. The same principal is also effective for inbound shipments by combining extra pick-ups. When additional pick-ups or stop-offs are requested, extra charges will be assessed based on off-line mileage and a cost for the extra pick-up or delivery. The freight savings often far out-weigh the additional charge for each extra stop-off.

Routing Policy- As you begin to consolidate traffic and secure competitive rates with select carriers, it is important to formalize these arrangements in written policies A routing policy should have corporate approval and a procedure should be in place to prevent other departments, such as sales from changing rates and routings which would have the effect of driving up transportation costs.

Monitoring and Control - While the above tips show a number of ways to reduce everyday transportation costs, the only way to ensure that there is ongoing attention to these points is to establish an accounting system that properly breaks out all of the related charges. This, combined with thorough checks of carrier freight bills prior to payment, would allow a monitoring and control of freight charges and the lowest possible cost.