



it's all in the numbers

Manage your freight spend data to improve your company's bottom line

A company's freight spend often represents between 2% and 10% of its total expenses. For many companies in the manufacturing, distribution and retail sectors, their freight spend has a direct impact on the company's bottom line.

One of the consistent problems I encounter in working with shippers on a day-to-day basis is a lack of complete and accurate information on their freight transportation activities. This problem is not limited to just small companies. In fact, many companies with a freight spend of five to fifty million dollars or more face the same problem.

What is interesting is that some of these companies have high quality ERP systems that drive their supply chain. However, when you try to extract a year's worth of freight transportation data, you receive a file that is riddled with errors and omissions.

What is even more disappointing is that many companies simply don't know what they spend on freight or don't care. One comment I hear is that the company's freight bills are audited by a freight audit company or by a knowledgeable resource within the company. If any discrepancies appear, they are addressed by one of these individuals. While this may be true, a failure to manage your freight spend can result in many missed opportunities to improve your company's bottom line.

Let me explain.

With good quality freight spend data, you are able to identify:

- Opportunities to consolidate smaller shipments into larger lower-cost shipments.
- Non-compliance with a company's routing guide that could be costing your company many thousands of dollars.
- Opportunities to take advantage of lead times to use less costly (intermodal) or alternate (standard ground versus expedited) transportation.
- Recurring accessorial costs that can be reduced or eliminated through implementation of Best Practices.
- Paying spot rates for recurring freight movements that should be under contract.
- Use of carriers due to historical relationships rather than due to proper price and service requirements.
- Rate changes brought on by a reclassification of a commodity (due to a change in packaging or other reasons) rather than a rate increase.

- Core carriers that are providing transit times that are inferior to non-core carriers which can be used as leverage in rate negotiations.

- Opportunities to quantify the precise impacts of changes in freight rates and accessorial charges.

In other words, your company may be paying the rates you negotiated with your carriers, but may be missing many opportunities to reduce its freight transportation expenses. What can you do to improve the quality of your data and reduce your freight transportation costs?

- Make sure your information system is capturing, on a daily basis, the key data elements you need to monitor your freight spend. These include accurate commodity descriptions, accurate weights, the various cost elements of your freight individually such as the freight rate, fuel, currency exchange, accessorial charges, carrier name, origin and destination cities, states/provinces and postal codes/zip codes, ship date and arrival date.

- Sort your data in the following ways to help identify opportunities for improvement:

- **By carrier** – to reduce your company's dependency and vulnerability in case of a strike or business failure and to leverage your volumes;

- **By mode** – to identify potential consolidation or modal shift opportunities;

- **By geography** – to verify that you are not losing market share to your competitors due in part to high transportation costs and to identify opportunities for round trip movements that will reduce your freight costs;

- Scrutinize your freight spend data on at least a monthly basis.

- Address errors and omissions to ensure you are receiving complete and accurate data.

- Establish a few key priorities for improvement every quarter. Establish good metrics to monitor the changes you make. Establish your own continuous improvement program by maintaining this program on an ongoing basis.

- Track your company's freight spend as a percent of revenue over time as one barometer of your success.

Please write to me at dan@dantranscon.com to let me know what you are doing to manage your freight spend data. Those e-mail messages that provide insight and wisdom to our readers will be posted on the Transportation Blog on www.dantranscon.com and on www.ctl.ca. **CT&L**

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