Managing Freight Costs: Finding Greater Efficiencies Despite Increased Rates

Capacity crunch. Driver shortage. Increased volume. Regulatory squeeze. Fuel costs. These are just a few of the ingredients pushing freight costs higher – as much as 6 percent higher year-over-year by the end of 2014. From lack of replaced capacity to federal limits on drivers' hours, there are many reasons for this price increase. Whatever the reason, shippers are feeling the pinch of higher freight costs at a time when many businesses are finally getting back on their feet.

The Right Logistics Partner Can Steer Your Course

Fact – most freight carriers offer what appear to be deep discounts as a way to lock in business and generate goodwill. But don't be fooled. Not all discounts are created equally. Price alone must not be the determining factor in choosing a logistics partner/carrier. Some other considerations:

- **Experience Counts.** Name recognition does not always mean best qualified. A business should instead search out a provider who serves its precise needs.
- **Asset or Non-Asset-Based Provider.** Using a non-asset-based provider can result in considerable savings. Eye for Transport's 2014 Annual Third-Party Logistics Study found that shippers who used third-party services reported average logistics cost reductions of 11 percent, inventory cost reductions of 6 percent, and an average fixed logistics cost reduction of 23 percent.
- **Scope of Service.** Are you paying for overnight delivery when two-day service would do just fine? Does your carrier continually tell you that your expectations are unreasonable? If so, then it might be time for a new carrier! Innovative thinking and technology have revolutionized the freight industry and you should take advantage.

Perfect Storm for Higher Freight Costs:

- Fewer trucks available
- Fewer drivers to man shifts
- Increased regulatory costs

Understanding Freight Costs

Businesses can manage freight costs by understanding the process of moving freight through the supply chain and having an awareness of innovative best practices.

- **Freight Classification.** The National Motor Freight Traffic Association (NMFTA) maintains an industry-standard list of 18 different "classes" through which baseline pricing is set. Each class incurs different charges based on weight, length, density, ease-to-ship, value, and liability for theft, damage, or spoilage.

  NMFTA reexamines the classification system each year, meaning that a product assigned to a particular class one year may travel under a different, lower-priced class the next year. While intricate knowledge of the NMFTA class system isn't needed, a basic understanding is helpful.

- **Accessorial Charges.** Accessorial charges refer to extra fees for services beyond "simply shipping a good from point A to point B." Examples of accessorial charges may include border clearance fees, waiting time, storage, packing, hazardous materials consideration, and extra fuel. By some estimates, accessorial charges can account for as much as 40 percent of freight expenses. Most accessorial charges can be managed – restructuring of warehouse operations for more efficient processing could eliminate incidences that cause delays.

  Charges that can't be controlled can possibly be managed through negotiation. If a shipper will always need special handling for its shipments, then that should be factored into the freight quote rather than added on at the end.

Freight Efficiency and Supply Chain Services

- **Consolidation is King.** Combining smaller shipments into one larger unit can be a tremendous source of savings. This can be accomplished in a number of ways: placing multiple orders in the same carton, banding multiple cartons together, palletizing shipments, or using a full truck Route Optimization. Route optimization software helps companies determine the most efficient service options, map out direct routes, and match available trucks and drivers to make the delivery. A streamlined delivery route means reduced mileage and lower fuel costs.

- **Distribution Center Bypass.** Distribution center bypass can eliminate 7-14 days from the supply chain, taking a significant amount of inventory out of the system.

- **Intermodal Options.** A growing number of shippers are turning to rail and other intermodal options for long-distance shipments. A 2013 survey of transportation managers found more than 66 percent of respondents have switched freight to different modes, with almost 38 percent saying they had switched to rail/intermodal.

Managing the Canadian Border Clearance Process

Various programs and processes are available to minimize duty obligations:

- **Duty Drawback.** U.S. businesses are entitled to a refund of up to 99 percent of import duties paid on products that are subsequently exported.

- **Tariff Classification.** Every product entering the United States must bear a 10-digit identifying code as found in the Harmonized Tariff Schedule of the United States (HTS), which is maintained by the U.S. International Trade Commission. The HTS includes more than 17,000 different product classifications, and code assignments can vary based on slight product variations. Misclassification can mean higher tariff rates than necessary or missing out on trade benefit eligibility.

- **Non-Resident Importer Program.** This is a program that allows U.S. businesses to compete "on a level playing field" in the Canadian market. U.S. businesses can act as "importer of record" and charge Canadian customers a landed cost at time of purchase.

To learn more about these and other supply chain innovations, visit www.purolatorinternational.com/whitepapers to download Purolator International's white paper: *Finding Efficiency in you Supply Chain: Managing Freight Costs.*