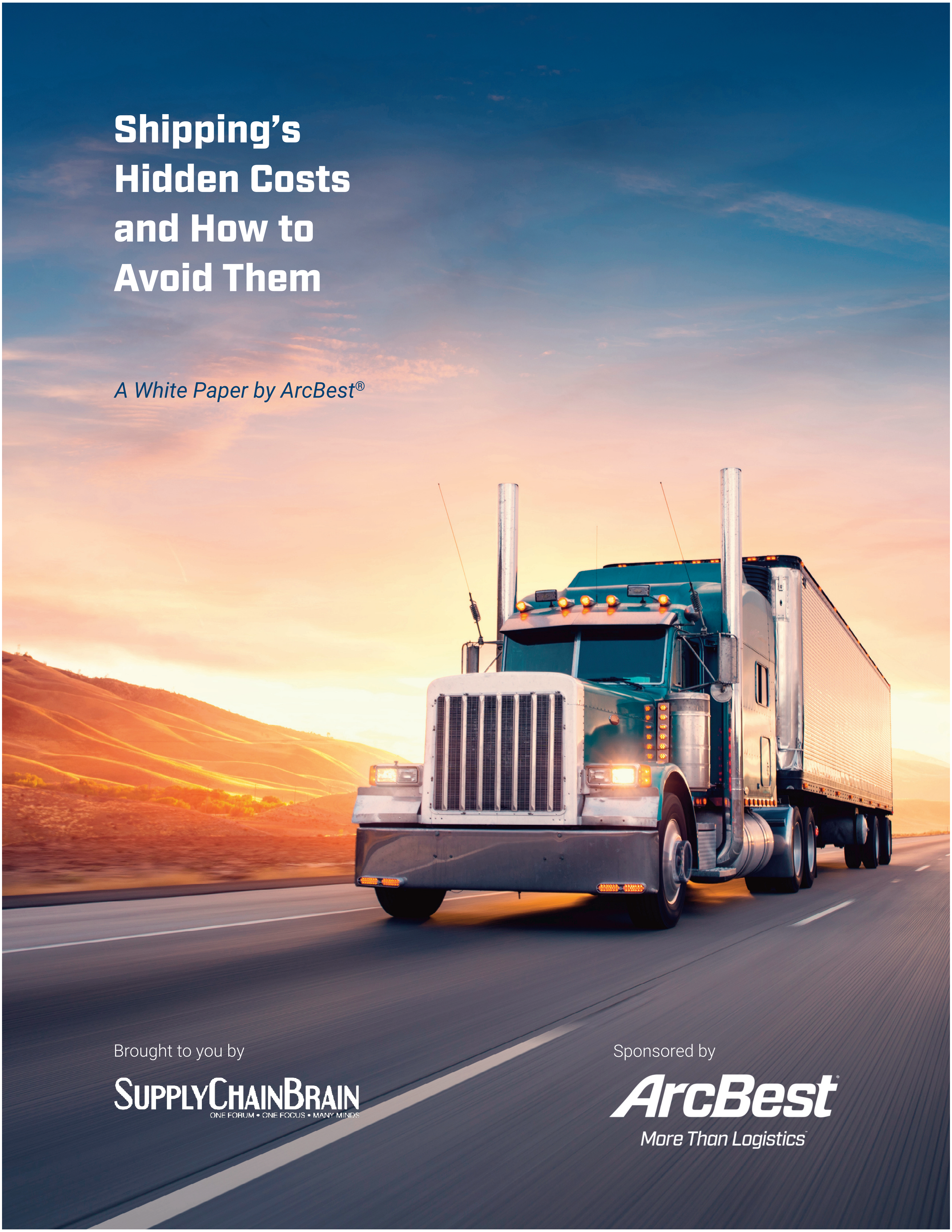
Shipping's Hidden Costs and How to Avoid Them

A White Paper by ArcBest®



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Transportation costs start with a carrier's rate, but if that's your primary consideration you are probably leaving money on the table.

In a fast-changing business environment, the pressure to deliver on consumer expectations while managing complex supply chains can be daunting. Finding and using the lowest-cost transportation provider may seem like an easy way to take some of that pressure off, but any savings found there can be elusive.

Indeed, transportation costs are rising. According to the Cass Truckload Linehaul Index, January 2019 marked 17 straight months of truckload price hikes. Rate pressures were seen easing somewhat in the first quarter of 2019 due to increased capacity, normalization of last year's Hours of Service clamp-down, and other factors. Nevertheless, most observers expect rates to remain higher than historically normal for the balance of this year.

It's tempting to look for a simple solution, to approach transportation costs as just finding a driver and a truck that can move your shipment from point A to point B. "If it were so easy," says Tim Kolb, ArcBest branch manager, "none of this would be all that complicated."

Kolb says maintaining a strict focus on lowering rates has become an increasingly time-consuming task, and it's often counterproductive.

That's because the rate you get from a logistics provider is only a part of your actual supply chain cost. An overemphasis on low rates often leads to significant problems that might not be immediately apparent: stockouts, loss and damage, and poor visibility into shipment status. The result can be higher total costs and—worse—lower customer satisfaction.

The best solutions usually start by establishing collaborative and transparent relationships.

Successfully purchasing and managing transportation is more complex but not impossible. The best solutions usually start by establishing collaborative and transparent relationships. With thousands of logistics companies to choose from, where do you begin?

“It starts with an internal conversation,” says James Williams, ArcBest branch manager. “Maybe during your annual RFQ process, or even if you seek quarterly bid reviews, align your internal team to the concept of looking at carriers not just for low rates, but for the capabilities, resources, and capacity to really help you manage your total distribution and transportation costs.”

Open and transparent communications between all parties is essential to working with a logistics partner who will commit to a strategic process.

“One of the key things is being aware of the importance of having an open dialogue with your transportation providers,” says another ArcBest expert, Terry Freeze, branch manager. “A qualified provider should be having regular business reviews with you to understand where your spend has been and should be speaking to the metrics that are important to you.”

Every company’s unique attributes and needs are focused on maintaining customer satisfaction. Retail enterprises, for example, have to accommodate the rising volume of chargebacks and returns that have become commonplace as part of ecommerce. Manufacturers, for the most part, don’t need to place such a high priority on managing this function in their transportation strategy.

Accordingly, logistics providers that offer customized solutions are better suited to act as equal partners in developing and adapting supply chain strategies when market conditions change.

"If you partner with a transportation provider that gives you the best of both worlds—multiple solutions across multiple modes of transportation and simultaneously gives you assured capacity options—that will really reduce your administration costs," Freeze says.

Such a relationship requires a win-win structure. Shippers have the right to expect a consultative, transparent relationship with their carriers. In turn, carriers can expect the opportunity to bring their entire offering of service options to the table.

Moreover, having a partner that can provide a wide range of solutions is more beneficial to the shipper. "You probably won't receive strategic value if you have a carrier who only handles inbound truckload, and another handling outbound shipments," says Williams. "It's better to pair up with a provider that knows your needs and can provide the visibility across a number of potential options that will holistically optimize your distribution and transportation network."

Trusting and relying on a logistics provider can result in unexpected and innovative solutions. Kolb cites the example of a transportation network analysis his team performed for a customer.

"They provided us with a year's worth of shipping data, and we analyzed it. When we presented the results, the customer initially thought we'd used the wrong data. They didn't even recognize that the results were from their own operations."

For many companies, logistics is not a core competency, and they simply don't have the internal resources or expertise to visualize and understand the complexities of their logistics function. This is a recipe for missed opportunities.

Once that fact is understood, it's easier to support the need for transparency in your business relationships.

ArcBest has optimized modal selection... and secured significantly reduced transportation rates.

"Years ago," says Freeze, "the president of a beverage importer decided to make an investment in me, and he taught me the specifics of his business. Things like why the raw product came in super sacks, and why their outbound shipments were palletized. In turn, he expected we would act as an integral part of their traffic department."

The result? Ten years later—by applying everything learned about that customer's supply chain operations—ArcBest has optimized modal selection, implemented a robust visibility solution that provides proactive exception notifications, and secured significantly reduced transportation rates.

"Those internal benefits are great, of course," says Freeze. "Where the rubber meets the road, however, is how our efforts impact our customer's relationship with their customers. That's where we scored the biggest win. One of their largest customers—a major national beverage retailer—has rewarded them with continued and growing business over the past decade."

That's a win-win-win.

As shippers face challenges like the recent tightness in capacity, many have found partners that can provide consistent capacity, but also offer additional value.

"Savvy shippers understand that," Williams says. "In particular, the retail market has become hyper-competitive, even though margins remain very slim. It's essential to encourage innovation. You can only be nimble if your transportation partner provides supply chain visibility along with advanced technology. When conditions change, these tools are critical for making effective decisions without compromising service or net results."

An example is the experience he had with a customer who used about 10 different vendors, each of which were shipping inbound from the West Coast to the customer's Midwest distribution center.

"They had not considered the impact on their total supply chain when their vendors were in control of inbound freight, which was arriving in smaller-quantity shipments because each vendor lacked the volume to create truckloads," he says. "After they agreed to a discovery process, we were able to consolidate the vendor shipments into truckload shipments which did much more than reduce costs."

First, standard transit times were reduced by optimizing shipment schedules across all the vendors. Second, by putting products in a single long-haul truckload shipment, intermediate handling was reduced, and so was loss and damage. Finally, an even more significant benefit was realized when ArcBest was able to manage service levels based on seasonal retail cycles.

"When the need was hot for holiday demands," Williams says, "we provided 2-day transit times with team drivers. Then, during less hectic periods, we switched to single driver service that maintained customer inventory requirements at a lower cost."

Such cases illustrate the pressing need for shippers to adopt strategic relationships with their logistics partners. As Williams puts it, "Better relationships translate into better communication, which helps your provider understand what you need so they can position and utilize assets for your benefit."

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