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An Unlikely Alliance

Partnering with carriers may be unconventional, but it can lead to greater efficiencies. By Joe Wilkinson

So, you've re-negotiated your parcel agreements. You've made sure you're using the most cost-effective service levels possible. You're a lean, mean, shipping machine.

But management is still screaming for savings. What do you do now?

First of all, welcome to 2010. In this economy, most, if not all, of us are in the same situation. Doing more for less and trimming budgets to the bone are simple realities facing us all, including the parcel carriers. If anything, parcel carriers are even more susceptible to economic downturns than most. Carrier revenues track with package volumes, and we're all aware of what has happened to volumes over the last eighteen months. While carriers' variable costs have fallen (roughly) proportionally with package volumes, the same cannot be said for the fixed cost component. Both UPS and FedEx have taken aggressive cost cutting steps, but it still takes a lot of planes, trucks and brick and mortar to keep your packages moving. While those costs can be trimmed, a heavy hand will have an unavoidable impact on the carriers' ability to get your package where it's going on time. Carriers are still hungry for your volumes. They will still present competitive pricing. But, if you've already negotiated a strong pricing program, where can you look for those all-important incremental savings?

The answer lies in taking a broader view of your transportation network. In the past, shippers have looked at internal efficiencies and external costs. That is an appropriate starting point; the low-hanging fruit, if you will. However, once you've captured those savings and assuming you've already optimized your network, selected an appropriate mode strategy, implemented efficient technology, etc. there's really only one place to go. In their 1996 best-seller *Co-opetition*, Adam Brandenburger and Barry Nalebuff suggest that, "Business is cooperation when it comes to creating a pie and competition when it comes to dividing it up." Put on your aprons folks, it's time to start baking. Again, most of us focus daily on increasing our internal efficiencies. However, if we zoom out and look at our internal operations and the carriers' operations as a single transportation network, opportunities often arise. Our network may be running efficiently. And the carriers' networks may be running efficiently. But there are often major inefficiencies where the two intersect/overlap. It is in these areas where savings can be had.

Obviously every situation is different, so solutions will vary from shipper to shipper and from carrier to carrier. However, a few examples may help to clarify the concept.

Maximizing Efficiency

The simplest form of building efficiencies is package consolidation. Many consignees order/receive multiple SKUs on any given order. Consolidating these SKUs in a single package can significantly reduce cost. For example, two four-pound, zone 4 Commercial Ground packages would incur \$12.68 in transportation charges (assuming list rates). These same items packaged together would incur \$7.04 in transportation charges, a savings of 44.5% on transportation charges alone. The savings would be even greater if fuel surcharges and potential residential and delivery area/extended area surcharges were calculated. The billable weight may even be reduced, as less cumulative packaging would be involved. One caveat is that one must take care that the final cost is not negatively impacted by dimensional weighting, large package surcharges, etc. While most shippers already follow this practice, it is illustrative of the point that increasing efficiency decreases cost.

Many shippers have regular shipments to a discrete list of locations: stores, offices, vendors, etc. These shipments are sometimes on a fixed schedule, sometimes not. However, the time sensitivity of these shipments should always be a considered decision. The consignee is nearly always going to prefer/request earlier rather than later delivery. However, this does not mean that earlier delivery is necessarily required to meet the company's objectives. Consolidating shipments reduces the calculated per-piece pickup cost to the carrier. In fact, the carriers have institutionalized this particular function in the form of hundredweight rating logic.

Another example is in order. Company ABC plant ships hardcopies of their TPS reports to corporate twice weekly. Let's leave aside the fact that these reports could be more efficiently transmitted via electronic media for the moment. Corporate reviews, audits and archives the reports monthly, so there's no compelling reason the reports need to be shipped as often as they are currently. The packages weigh, on average, 25 pounds, and Corporate is in

zone 4 relative to the plant location. Shipping these package twice weekly results in monthly transportation charges of \$86.56 ($\10.82×8 assuming list rates).

Consolidating these shipments into a single monthly shipment would enable hundredweight rating. If Company ABC currently enjoys Tier 1 hundredweight rates, with no additional discount, the resulting transportation charge for the entire shipment would be \$58.20 ($\$29.10 \times (8 \times 25)/100$), a savings of 32.8%. While the total dollar savings of this example isn't particularly compelling on an annual basis, what if we were talking about 300 store locations instead of a single plant? Doing things more efficiently is a mindset. Doing so makes sense and has a cumulative impact across the organization.

Enter the Carrier

The examples we have looked at so far do not require any particular participation from the carrier. The savings come from the carriers' own rating logic. Let's look at an example that does require some collaboration. Pickup efficiency is a key cost driver for parcel carriers. The time and resources involved in getting packages from your facility into a truck and on their way to the local terminal account for a large percentage of the carriers' total cost to serve. Many shippers take the approach of simply dictating the pickup operations plan to the carriers: "If you want to do business with us, you'll pick up at 6:00 pm at door X, the packages will be loose-stacked at a staging area 30 feet from the dock door, and you are responsible for 100% of the loading." Sometimes this is a carefully considered business constraint. However, too often we find that things are handled this way solely because that's the way they've always been done. Take a more collaborative approach. Even minimal flexibility on pickup times can dramatically improve a carrier's efficiency. If you have dock or warehouse workers who are underutilized during this part of the day, use them to assist with loading. Certainly stacking packages on pallets so they can be moved efficiently to the dock door would add efficiency in this scenario. You're not undertaking these actions out of sheer altruism. No, rather, you are assisting the carrier in lowering the total cost to serve with an aim of sharing in those cost savings. If you are able to lower the carrier's cost per package by \$0.20, your goal should be to recoup at least \$0.10 per package in cost reduction.

These are just a few of many scenarios where increasing efficiencies can benefit both the shipper and the carrier. The point is to keep an open mind; to prod, to poke, to inquire. Possibly the best method for uncovering unrealized opportunities is to ask the carrier directly. While sales representatives may be able to assist in some capacity, their most valuable contribution will likely be identifying the carrier resources who can best address operational and pricing issues. The conversation should start with, "How can I help you lower your cost to serve?" and lead to "What are you willing to do for me if I do?"

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