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Tapping unrealised potential: smart freight cost management

Due to international procurement and distribution strategies, shipping routes are getting longer while the downward trend in inventory levels, coupled with delivery strategies such as just-in-time, has led to more frequent transports. As a result, transport costs account for an ever greater share of logistics costs in recent years: up to 75%; and they will continue to rise, driven primarily by energy and fuel prices, personnel costs and additional charges, such as tolls and environmental certifications.

That is why logistics managers have long focused on transport costs to save money and increase efficiency: They have reorganised their supply chain networks, optimised capacity of their storage allocations and adjusted shipping strategies, sometimes with considerable success. But many companies still harbour latent potential for optimisation, especially when it comes to transport management. The reason lies in the vicious circle of requesting freight quotes, meeting deadlines in day-to-day shipping operations and dealing with the complexity of logistics providers' price structures.

The last point is crucial; determining transport costs is becoming increasingly challenging for logistics experts in the shipping industry and commercial sector. The cost models and tariff structures submitted by transport service providers can be very complex, making freight cost calculations time-consuming and error-prone. The results encapsulate a high administrative overhead, a lack of transparency in freight costs and difficulty in comparing the quotes of different carriers. Freight tariffs and agreements with carriers and forwarders touch upon nearly every aspect of transport logistics, from planning and simulation to calls for bids, freight management, and controlling. They also impact the entire supply chain: in procurement, internal movements, and, of course, distribution. That is why shipping managers and supply chain management strategists alike take an interest in operating costs and process optimisation.

But what is an effective approach to determining and managing transport costs? Special IT solutions for freight management can put things right by facilitating the administration of diverse freight forwarder agreements and calculating freight costs for any scenario, be it a quick calculation to generate sales data or billing costs to customers.

Status quo: price patchwork in the carrier marketplace

Carrier terms and conditions are almost comparable to mobile phone plans. The diversity of price calculation models with varied cost components and service types makes it challenging for shippers to calculate their own freight costs. Freight tariffs can be based on volume, weight or distance, and charges can be negotiated per transaction or as a flat rate for a given period. The unit of billing can be the package, individual shipment, container or truckload. Other key factors affecting freight costs include the size of the shipment, number of transfer points, freight volume, transport distance, package size, freight network structure and selection of transport mode. One provider calculates the price of a shipment according to weight and zones while another applies volume weight and distance. In practice, they often combine a whole range of parameters for even more complex price structures. What is more, each carrier can add on or factor in surcharges for fuel costs, tolls, handling, extra packaging, load devices, or hazardous goods. There is almost no limit to the complexity.

This turns freight cost calculations into an ordeal, even for just one shipment and one provider. For companies dealing with hundreds of daily shipments with various providers, such calculations become increasingly complex so that even experienced logistics professionals often find it too time-consuming and error-prone. Given the vast number of transport service providers, shippers face a staggering variety of price models. One approach to navigate this maze effectively is through software solutions that manage the varied combinations of agreements, tariffs and rates, and then calculate applicable freight costs accordingly. But, what features should such a solution offer?

Tips for efficient quote management

The foundation for successful transport and freight management is the management of quotes. Quotes represent comprehensive agreements on freight costs and surcharges negotiated between shippers and transport service providers. Freight and transport management software is specifically designed to accommodate these often complicated agreements.

Freight forwarder and carrier rate structures include a wide variety of components, which in turn depend on various parameters. A quote, meanwhile, may comprise any number of cost components – for example, flat-rate, weight-based, package-based, shipping unit-based, start and destination-based, freight-charge-based or goods-value-dependent costs and charges. Software solutions should allow different calculation rules so that variables such as chargeable weight or volumetric weight can be calculated automatically, different cost components can be linked and combined, and cost calculation models can be customised as required.

Managing transport modes, surcharges and discounts

Freight agreements can typically be applied by customer, mode of transport, forwarder, tariff validity period, transport lane, and/or service types. The software should be able to accommodate these considerations and be capable of maintaining separate quotes for shipments by road, air, rail or ship, along with applicable unique specifications. An appropriate solution should also cater for variable surcharges or discounts and extra fees for services, such as express or hazardous goods. Additional benefits are provided when information on services is available throughout the software for other features, such as EDI transmission or label printing. It is also helpful if the software allows users to define extra charges, such as tolls or fuel surcharges, for more than one quote, so that this information does not have to be re-entered for each agreement.

Alternative: spreadsheets?

Many companies maintain quotes in spreadsheets – for example, with Microsoft Excel. Managing this data can be complicated, time-consuming, incomplete and error-prone. With specialised freight software, this task can be carried out with a few mouse clicks: an important advantage when shippers use various transport service providers

Manual handling of freight cost management is time-consuming and error-prone

and need to manage multiple or complex quotes structures. If these quotes are defined as master data in the software, they are available for calculating or comparing freight costs for all possible scenarios at any point of the sales, service or shipping process.

Carrier selection, transport chains and shipment consolidation

Freight management software can guide companies to determine the most cost-effective carrier by automatically calculating freight cost options. The software does this by comparing the contents of the shipment data with the available quotes, and selecting the ones that apply to the current shipment parameters. Appropriate solutions also support additional transport cost optimisation by automatically offering consolidation options for combining individual shipments or transports during the billing process to take advantage of a carrier's sliding scale.

Broken transport chains such as overseas shipments with multiple transport modes require several quotes to be combined and all relevant transport chains to be taken into account. To accommodate such transports, the software should also provide a clear overview of applicable transport chains, including information such as segment lead-times and means of transport. Ideally, it should restrict the selection of transport chains by applying useful criteria, so that only those chains that are actually relevant are displayed.

Other important options include manual selection and the application of specific selection criteria – for example, to prefer a particular forwarder or transport chain for a specific destination, or to comply with individual customer requirements.

Automated freight cost management helps to save costs and optimise processes

Freight costs for actual shipments

'My customer wants to know what the transport costs will be to have the replacement part express delivered this week.' 'I need to know the freight costs for a shipment to XY so I can prepare a customer quotation.' This is the type of internal enquiry that may come from your sales representative. It is difficult and time-consuming to provide an answer quickly and accurately without software support. But even automatic calculations can be impossible without final shipment data.

So it is certainly a helpful function if the freight cost management system has the ability to calculate the costs of a specific sales order prior to the set up of a complete shipment. Typically, only the key shipment data – for example, consignor, consignee or shipment weight – needs to be entered to see a list of potential forwarders, service types and their freight charges. The calculation should automatically access the defined quotes to ensure that the freight information is always based on current agreements.

Freight cost calculation for cost reallocation

Those who transfer freight costs to their customers or business partners often use a separate fee structure based on the actual freight costs. The freight costs charged to customers may differ from the actual costs to the forwarder, if the company adds on its own costs – for example, for co-ordinating and handling the shipment. The opposite scenario is also commonplace – for example, billing the customer for less than the full freight costs based on sales incentives.

It is therefore important to have freight management software that supports this type of calculation, too. Most solutions let companies configure percentage-based surcharges and discounts for customer freight costs relative to forwarder freight costs, and even more complex calculation models are often supported as well.

Freight costs for inbound transports

The calculation of freight costs for inbound transports is increasingly important, as these costs are often not included on supplier invoices but rather assumed by the receiving companies – for example, ex-works deliveries. The advantage to consignees is that they contract a greater transport volume with the forwarder and can negotiate better terms; and, ideally, the number of inbound and outbound deliveries can be reduced by having the carriers that deliver inbound transports pick up outbound transports at the same time. IT solutions generally support the calculation of inbound freight costs, using the same methods applied to outbound transports. It helps if the software also supports the calculation of customs-related freight costs and can interface with customs software to streamline import processes.

Choosing the right software

Given the range of providers, choosing the right freight and transport management software is not an easy task. Aside from functional aspects, factors such as user-friendliness, availability of additional services, satisfaction levels of existing customers and cost of investment also play an important role. The system should also easily integrate into a company's existing IT environment and offer a simple option for interfacing with external business partners such as forwarders.

But not every company needs a full-scale transport and freight management system from the outset. It is a prudent approach to look for software with a modular architecture that provides the functionalities that are required at the time, with the option of expanding later as a company's requirements grow – for example, freight cost calculation may eventually need to be supplemented with modules for automatic freight invoice auditing or billing/self-billing to streamline not only the selection but also the invoicing process.

Another critical issue is the type of software solution: on-demand via the Web, hosted via computing centre or a licensed server installation? When choosing a provider, companies should also consider the option of outsourcing or re-insourcing the solution.

Which solution is right will depend heavily on the circumstances and requirements of the company using it, making it difficult to reach any one-size-fits-all conclusions. That makes it all the more important that the provider offers the right portfolio, experience, and consulting services to guide through the decision process. The savings to be realised when optimising the freight and transport selection and administrative processes in today's supply chains are significant, and logistics experts wanting to streamline operations and increase performance while delivering cost savings would be well advised to take a closer look at currently available freight cost management solutions to support that goal.

ESSENTIALS

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