



LOGISTICS STRATEGIES

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HIDING

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2009: THE YEAR TO COME OUT FROM HIDING

By now, many of us have already given up on our New Year's Resolutions, those wonderful thought provoking goals we set each year to make us better people. With that being said, why do we give up on our plans and dreams so easily? Precisely because it is easy to give up! In fact, it's much easier to give up than it is to stick to our goals especially when they involve effort on our part.

In addition to our personal goals, many companies give up on their goals when the going gets tough. To stay in business in good times, you need a valuable product or service that people want, at a price they can afford. Well in a good economy when companies and individuals are buying it's pretty easy to accomplish those goals. However in a down economy, (can you say recession?), the challenges are much greater. So what do many companies do? Some seek bailouts when in fact the company should be allowed to fail. Others take a back seat and wait for things to get better, if ever. Then there are the leaders who are strengthening their businesses now to ensure they will be at the top of their game when the economy begins clicking on all cylinders. Which category does your company fall into? What are its chances of survival?

We believe it is fair to say that in this recession, there are many companies, as well as individuals within those companies who have crawled under rocks and are content on hiding until this thing is completely over, this "Thing" being the current recession. Some management level employees are afraid to make a decision for fear that their bosses will realize they are still working there and decide their services are no longer needed. Some "C" level executives are also afraid to make decisions because if any group is under great scrutiny in these very difficult times it is the corporate executives with big salaries, bonuses and perks that are being scrutinized for excessive spending, mis-management and outright poor business judgment.

Well we have some advice for the executives and managers of these companies and that is ... It's time to come out from hiding and do what you are paid handsomely to do. Make decisions that will ensure your company is a survivor. So what decisions are we talking about? Decisions that make your company better, stronger and able to

weather this current economic storm. We are talking about making decisions to reduce expenses and improve processes to enhance your company's bottom line to ensure its survival now and for the long term. We have some advice for both shippers and transportation companies to help them see the light.

Shippers:

- With capacity declining in all sectors of the transportation industry are you sure you are taking advantage of ALL of the options available to you to reduce your transportation and logistics expenses? Rates have been declining steadily across transportation modes. Have your transportation service providers come to you with reduced costs? If you believe they are not going to take the lead on this, you would be surprised at how many companies are in fact doing just that. If the carriers have not come to you with reduced rates or additional product offerings, then it's time for you to get out from under the rock and go to them. If you don't know what to ask for or how to go about it, contact a transportation consulting firm to take care of the negotiations on your behalf. They have the experience and data from millions of shipping transactions to ensure that your company receives the lowest rate consistent with the services your company requires.

- Have you ever analyzed what it costs your company to process a freight bill for payment? Experts differ on the bottom line number, but we can tell you the consensus of opinion by the experts is that the cost is somewhere between \$4.00 and \$11.00 per invoice. Don't believe it? Do your own cost study but be sure to include ALL of the costs associated with the process including costs to receive invoices, match invoices to source documents, batch invoices, audit invoices, (assuming the company has the expertise to audit invoices), data entry costs, validation costs, check cutting costs, postage costs, check reconciliation costs, and did we mention the cost of handling those annoying collection calls from the freight carriers. Now what did you say the cost to process invoices in your company is? Why not look at the option of outsourcing that function to experts in the field that specialize in pre-audit and payment services at a fraction of the cost of in-house programs. The staff currently involved in processing invoices could be re-positioned into strategic positions to help the company grow. What a novel idea. Still not sold on the idea? Well then be sure to hire a Freight Bill Post Audit firm to audit the invoices after they have been paid. They will obtain refunds for you for a percentage of the actual savings realized. No refunds ... No cost to you.

- With the demise of DHL Express in the domestic express package business, shippers are now down to mainly two options, UPS and FedEx. Two points we want to make here, first are that neither company, nor any transportation company for that matter, issues invoices that are 100% accurate. Believe us when we tell you this is NEVER done intentionally. It is because of the complexity of the freight rate structures and the contract agreements they negotiate. Based on this fact, if your company is receiving paper invoices and you believe you have a thorough audit process in place you are only fooling yourself. Many times the paper invoice does not contain all of the details necessary to thoroughly audit the invoice. Therefore, you must insist on an electronic invoice and you must contract with a parcel audit firm to thoroughly and comprehensively audit that invoice to make sure you are paying ONLY the proper charges. Again, these firms usually work on a contingency basis so your company does not pay unless they receive the benefit of refunds for improper billing. The

second point is, as we mentioned before, the contract agreements are complex and tricky. To ensure your company is getting the best possible deal you should seek out a parcel carrier negotiation expert who knows all of the ins and outs in the contract, what the carriers look for in shipping characteristics and will negotiate the best level of rates from a position of strength. Something shippers cannot do on their own. When the parcel carriers know a third party is involved in the client's negotiation they know the client is serious about getting the best deal.

Carriers:


- No one wants to give away the store if they do not have to. However, we are firm believers that freight carriers **MUST** look out for the best interest of their shipper customers, especially the most valued customers. This means if capacity is down and the competition may beat you to the door of your current customer offering reduced costs, you should be the leader in offering better value. You want to make sure that you have driven out all of the excess costs in your operation and have taken the lead in reducing your customers' rates before they ask. This process has been especially true in the ocean freight transport sector where many importers have seen as many as three price reductions in the last six months.

- Stop thinking about market share and focus on long lasting valued relationships. When the economic crisis smoke clears and it will, the freight carriers should have a strong lock on their valued customers they have gone to the mat for during this time of economic hardship. Keep in mind that we are not just talking about reducing your customers' rates we are talking about working closely to determine how the carrier and the shipper can reduce costs jointly to keep both parties working together for the long haul. The best case scenario for the freight carriers is a strong customer following especially now but also into the future.

- We firmly believe that this economic crisis will result in a fallout of many carriers in 2009, especially in the trucking sector. The trucking industry can help themselves mightily by creating a clear and defined competitive advantage for their company. If they continue to sell trucking services as a commodity they will **NEVER** get away from pricing pressures. However, if they sell on value add they will immediately reduce and in some cases eliminate their competition.

YRC WORLDWIDE RECEIVES CONCESSIONS FROM EMPLOYEES

Earlier this month, YRC Worldwide, the parent company of various transportation brands, including Yellow Transportation, Roadway Express, New Penn Motor and USF Carriers among others received major concessions from the Teamster's Union. The Teamsters agreed to modify their **CURRENT** labor agreement by reducing wages 10% and the suspension of Cost of Living Adjustments. In return, the Teamsters will receive a 15% ownership stake in YRC Worldwide. This fact alone will tell you how serious a recession we are in.



In addition to the Teamster employees, the non-union workers will also experience the same or greater concessions in wages and benefits, all in an effort to keep the YRC major trucking brands operating into the future. YRC claims that these wage and benefit concessions will yield between \$220 and \$250 million in annual cost savings. Kudos to YRC and their employees for taking bold steps to create a stronger employer/employee bond to ensure everyone's future is strong and profitable.

SO YOU WANT TO GO INTO THE TRUCKING BUSINESS?

A recent study by the American Transportation Research Institute indicates that the following costs are applicable to operate a truck today in the US:

\$1.73 per mile, or \$83.68 per hour, and that is before any profit is made. The study included costs for both private carriers and for-hire carriers. The costs are said to include the following cost elements: labor, fuel, maintenance, insurance, taxes, tolls as well as other cost factors.