



LOGISTICS STRATEGIES

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WHERE DO WE GO FROM HERE?

IMPROVE PRODUCTIVITY BY UTILIZING TECHNOLOGY AND ESTABLISH GOOD BUSINESS RULES

PARCEL SHIPPERS BEWARE

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Every day transportation and logistics professionals are inundated with more bad news regarding the current economic conditions and the prospects for a quick recovery. The road to recovery will apparently be a long one.

To support these contentions, the Council of Supply Chain Management Professionals recently released its State of Logistics Report which unfortunately does not paint a very rosy picture. In addition, one needs to only look at the financial reports of the major parcel carriers, UPS and FedEx, as well as motor carriers and ocean carriers.

While the report documents supply chain performance in 2008, it is clear that not much has happened in the first half of 2009 to make anyone believe this recession will be over soon. There is one bright spot, however, and that is Logistics costs overall have dropped to 9.4% of GDP, the lowest percentage since 2004.

Here are some of the key points of the report that are worth noting:

- Most improvements came from reductions in interest rates which reduced the cost of maintaining inventories.
- Inventory to sales ratios for 2008 increased from 1.25 to 1 in June to 1 to 1.46 in December. The sharpest jump since 1982.
- Retailers and manufactures are finding it virtually impossible to draw down their inventories.
- Despite weak demand, the report contends that transportation costs rose 2%. Most of this increase came from increased fuel costs and not from higher base rates. No surprise here!

The prospects for 2009:

- Many economists believe that we are in the early stages of recovery. Do you believe this?

- Unemployment will certainly get worse before it gets better. Can anyone say "Stimulus?"
- In the first quarter of 2009, GDP contracted by 5.7% and is expected to drop another 2% in the second quarter.
- Since transportation is the largest slice of the supply chain pie, the buyers market should continue. However, we warn you once capacity starts to dry up the carriers will be at the shippers' doorstep looking to make up lost revenues in the shortest time possible. We believe this will be especially true with the parcel carriers. Remember the transportation industry has been shrinking for some time now and demand will probably outweigh supply.
- For those companies that have not prepared for the economic recovery by solidifying their relationships with their freight carriers and logistics service providers, watch out you will be far behind the eight ball.

IMPROVE PRODUCTIVITY BY UTILIZING TECHNOLOGY AND ESTABLISH GOOD BUSINESS RULES

One of the major inefficiencies facing companies today is the underutilization of technology. This can occur for a number of reasons. First, because the company does not have the necessary technology it needs to operate more efficiently; two, it does not have the technological expertise on staff to provide the services required; or three, it is so bogged down with IT projects from all areas of the business that many departments get left in the dust. In addition, many companies operate by the seat of their pants because they lack consistent and logical business rules in their everyday business dealings.

Nowhere is this truer than in the area of transportation and logistics. For some reason, the transportation and logistics department is often at the bottom of the ladder when it comes to implementing IT solutions. Don't ask us why but we have seen it happen over and over again throughout corporate America. Then, when it comes to establishing business rules to protect the companies interest, there is often a lack of understanding when it comes to shipping, receiving, claims, routing controls, audit controls, etc. Millions of dollars fall through the cracks each year never to be recovered.

Here are some examples we came across recently in analyzing several different companies' transportation and logistics operations:

1. *Failure to provide suppliers with comprehensive routing instructions* - Many companies control the routing of their outbound shipments but fail to control inbound supplier shipments and customer returns. The net result is much higher freight costs. Many companies get hit with shipping and handling charges because they allow their

suppliers to invoice the freight charges on a merchandise invoice with no way of discerning the actual cost of the freight versus the shipping and handling charges. This process also depletes revenue from their core carriers that could be used to further drive down their freight costs.


2. *Failure to electronically audit freight invoices* - Companies that maintain a manual audit process are missing the boat when it comes to performing a comprehensive audit to capture all potential overcharges and duplicate billings. Nowhere is this more prevalent than in the area of auditing parcel carrier invoices. For one thing many companies process these freight bills at the invoice level rather than at the tracking number level because they want to limit the amount of data entry. What they fail to realize is that they have no duplicate payment controls if the parcel carrier sends the same airway bill in on another invoice. It happens more times than you can imagine. For some parcel carriers, the weekly invoice contains summary information so the invoice cannot be audited for accuracy. The only true way is to maintain a comprehensive electronic audit function by a third party that maintains the technology and the expertise to generate significant refunds through the audit process.

3. *Understanding Terms of Sales* - Many companies sell their goods FOB (Free on Board) their shipping location. In those cases, as soon as the goods are placed on the carrier's vehicle and the bill of lading is signed by the carrier, title passes from the shipper to the consignee. If the product is lost or damaged in transit, the consignee is legally responsible to file the claim for recovery. While this is the legal definition, many consignees because of their size "force" the claim back on the shipper to file. Note: The freight charges can be prepaid or collect but that does not change the terms of sale. The FOB designation determines ownership of goods. Make sure you understand your company's sale and purchase terms.

PARCEL SHIPPERS BEWARE

If you ship parcels via the major parcel carriers, you need to be aware that if you ship your product on a freight collect basis, which means your customer is responsible for paying the freight costs but for some reason the customer fails to pay, the freight charges will be billed back to you and you are responsible. While we have no problem with the spirit of this shipping regulation, we do have a problem with how one of the major parcel carriers handled this process for a US company shipping into Canada.

The shipper tendered dozens of shipments to dozens of different customers in Canada on a freight collect basis. Several months after the original shipments were made, past due freight bills were issued by the parcel carrier demanding payment by the US company. The initial problem was that the Parcel carrier did not identify who the original customer was and merely submitted these past due invoices showing the US company as the shipper as well as the consignee. Well, that makes no sense. Meetings were held with the shipper and the parcel carrier seeking additional information from the parcel carrier indicating who the customer was and proof that they invoiced them for the original freight charges. This way the US shipper would have been able to contact all of the customers and tell them the invoices must be paid or they will not receive any additional product from them.



Well, the final outcome is that the multi billion dollar parcel carrier says they cannot provide any of this documentation so the shipper would be responsible for paying these charges even though it does not know if the customers also paid these charges. The carrier was gracious enough, however, to supply a formal dispute form for the shipper to use ... How kind! Well, we have news for them, the shipper will file a formal dispute and the carrier will have to find another sucker to get freight from ... Done!