



LOGISTICS STRATEGIES

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ECONOMIC DOWNTURN CREATES NEED FOR COST SAVINGS OPPORTUNITIES

There is plenty of bad economic news to go around and make everyone's head spin. It also makes us want to hide under a rock until it's all over. But we all know this is really not an option. How long this economic downturn lasts is anyone's guess. We've all heard the story that when life gives you lemons, you need to make lemonade. So what is a company to do to help them survive these very challenging economic times?

In the area of transportation and logistics, we have identified a number of cost savings opportunities that shippers should be looking at right now to create an immediate positive impact on their bottom line. We also have a number of suggestions for shippers and carriers to work on together to reduce costs on both sides of the shipping transaction.

In our deregulated transportation industry there are no limitations for shippers and carriers to set goals for both parties to assure cost savings initiatives are achieved. When these initiatives are implemented both sides win and long-term economic benefits accrue to the shipper and the carrier. Both sides bring to the table vast experience from their individual business worlds. The challenge for them is to work together as true business partners to achieve best practices while at the same time achieving real cost savings that benefit each other's business.

One of the areas we believe many shippers are weak on is fully understanding all of the services their freight carriers provide. We know this because we consistently see shippers paying premiums for services they really do not need. One of the best examples of this is shippers paying huge premiums for expedited services when in fact the carriers' standard transit times will meet those delivery expectations. Shippers consistently pay for Priority Overnight or Next Day Air shipments with the major parcel carriers when in fact many of those shipments are GUARANTEED by ground delivery the next day. It is true that the guarantee may be for a later delivery time in that day, but does your customer really need those packages early in the morning? How many times have you entered a corporate lobby and seen these premium cost envelopes and packages sitting on a receptionist's desk waiting for the internal mail delivery department to deliver them to the recipient? This issue of premium transportation expenses goes beyond next day deliveries and also applies to second day, third day and beyond delivery services. The savings can be staggering, ranging between 20% and 50%!

In the area of truck shipments, shippers also pay for expedited deliveries when again the carrier may guarantee those deliveries within the time frame the shipper needs. Very often though, the shipper is not aware of the transit time schedules of the carrier and therefore often pays much more in freight costs than they really need to. In the full truckload shipment sector, shipments can sometimes be moved in intermodal service, that is placing the trailer on the railroads to move between major

cities. Shippers need to identify if their shipments are moving in these lanes and whether their carrier or freight broker offers intermodal services. The potential savings here can be anywhere from 10% to 30%.

Another area that we strongly recommend, especially in this challenging economic time, is the complete and comprehensive audit of a shipper's freight bills. This service can be provided in-house through the company's transportation and logistics department assuming they have ALL of the necessary knowledge and carrier freight rates to perform this comprehensive audit. Very often however, shippers lack the technical expertise to perform such audits. Well the good news is that there are services available to perform these services on a pre-payment basis, that is auditing the invoices before they are paid. There are also services that will audit the freight invoices post payment meaning the invoices are audited after the invoices have been paid and the carriers will issue refunds for the overpayments. We suggest that even if a company is performing a pre-audit, it should also contract with a post auditor to recover any overcharges that may have been missed in the pre-audit process.

Any shipper that is receiving paper invoices from their parcel carriers and is attempting to audit those invoices will not be performing a comprehensive audit. The principal reason is all of the information required to perform the audit is not available on the paper invoice. The only true audit must be done electronically by third party audit firms that have the technology, audit controls and technical expertise to perform these comprehensive audits. These firms also have the ability to provide information on "Missed Savings Opportunities". This information is invaluable in helping these shippers avoid making the same costly error in the future.

While we're on the subject of freight bill audits, companies can save thousands of dollars annually by outsourcing this function to third party audit firms. The cost to pre-audit and ultimately pay these invoices is usually 1/10th of the cost a company will incur if they are paying these invoices in-house. How often does a company find a service that will reduce its costs by over 90%? But that's not all. When you add in the savings these firms achieve by not allowing any overcharges to be paid you will almost always find that these companies will be providing this service at "No Cost" since the audit savings far outweighs the transaction cost of providing the service.

These are just a few areas that companies can immediately implement to improve their bottom line. Remember, the best time to do something extraordinary is between yesterday and tomorrow!

DHL REPORTEDLY ENDING DOMESTIC GROUND SERVICE

Various industry sources have reported to several trade publications that DHL Express will end their domestic ground service by the end of November, 2008. Their plans are to end domestic air service by February 1, 2009. DHL has yet to confirm or deny this story. Only time will tell.

UPS has reported that they are still in negotiations with DHL Express on the package hauling agreement but indicated that the agreement may have to be modified in light of the declining DHL volumes. UPS is still hopeful of completing these negotiations by the end of this year.

While there are some reports that DHL Global Mail services will not be affected by this shutdown, other sources claim that the Associated Mail and Parcel Center has informed its centers that DHL Express will cease all domestic air and ground service to that organization within 90 days. On the other hand, they claim that DHL international shipments through mail and parcel centers will continue without change.

WHEN IS A REFUND NOT REALLY A REFUND?

UPS has changed the terms and conditions of their Service Guarantee to eliminate the fuel surcharge portion of the transportation cost in their refund program. Therefore, all future refunds will not include the fuel portion of the shipping cost. More importantly, it has been widely reported that UPS and their counterpart FedEx have been negotiating Guaranteed Service Refund waivers in their new contracts especially with large volume shippers. One word of caution to shippers - if this "Deal" is offered to you, make sure the savings the parcel carriers are offering exceeds the refund potential that will be lost by not filing these claims.

PARCEL CARRIER RATES GOING UP IN 2009

FedEx has announced a 6.9% General Rate increase effective January 5, 2009. They plan to offer a 2% Fuel Surcharge "offset" to this increase to soften the blow.

UPS, on the other hand has announced an average rate increase of 5.9% for ground shipments and a 4.9% increase on all air express and US origin international shipments. The increase proposed for air express and international shipments which are not US origin shipments will be 6.9%. All of these increases are expected to take effect also on January 5, 2009.

The updated rate charts are available on the UPS and FedEx websites.

Watch for future issues of Logistics Strategies as we break down these 2009 parcel carrier increases into REAL numbers our readers will understand.