



Controlling Inbound Transportation: Unlocking Savings

Many companies have continued to stretch, mold and modify their supply chains in an effort to save money. Most have focused their efforts on Outbound Transportation by squeezing rates and pushing the carriers for more and more efficiencies that can translate into savings. But for many, the largest savings opportunity is still overlooked - Inbound Transportation - an opportunity that can produce savings equal to one percent (1%) of the total purchased price of goods.

Why Do This?

For many companies, the freight allocation that vendors apply to the purchased goods is approximately 4-7% of the invoice value of the inbound cost of goods. The savings that can be negotiated from the vendor when assuming control of inbound transportation is expected to range from 15 - 25% of this amount. That translates to approximately one percent (1%) of the total purchased price of goods. Although the savings alone should be enough, there are a number of

- **Outbound Transportation Inefficiencies** - Many companies still have work to do to optimize their outbound transportation operations and don't focus on inbound while there is still opportunity in traditional transportation management.
- **Political Boundaries** - In many companies, Purchasing and Transportation exist within separate leadership structures - only the more agile, aggressive company has aligned these two organizations under a single reporting structure. With Purchasing and Transportation having separate reporting structures, their goals may compromise each others respective mandates for lowered overall costs and increased efficiencies.
- **Lack of Technology** - Until recently, inbound transportation has been handled as a separate "activity" for Transportation Management System ("TMS") providers and was a separate module that companies needed to purchase. This has changed and TMS providers are now bundling this

Table 1: Benefits of Controlling Inbound Transportation		
- High Level Benefits -	- Tactical Benefits -	
<ul style="list-style-type: none"> • Compressed Cycle Times • Decreased Inventory Levels • Improved Supplier and Logistics Performance • Improved Visibility • Reduced Logistics Costs 	<ul style="list-style-type: none"> • Better Inventory Control • Better Scheduling Reliability • Fewer Expedited Needs • Greater Shipment Consolidations • Opportunities for Continuous Moves, Backhauls • Volume Aggregation for Greater Sourcing Savings 	<ul style="list-style-type: none"> • Increased Core Carrier Compliance • Larger Shipment Size (weight, cube) • LTL -> FTL mode shifts • Greater Understanding and Performance Metrics • Increased Contract Compliance • Reduced Damage • Improved On-time Delivery

other areas that provide additional benefit to the organization. Table 1 below outlines these benefits.

Why Isn't This Done More Often?

There are several reasons why more companies haven't taken control of their inbound freight. These include:

- **Lack of Awareness** - Most procurement professionals don't have a deep enough understanding of transportation operations and how their purchasing decisions can affect (positive or negative) their logistics network. They are pushing to lower costs, while ensuring sufficient inventory to satisfy their needs. As discounts, trade offsets, etc. get more complicated, many typically look for all-inclusive costing from their suppliers as this is easier. However, at a minimum, it is desired to get component pricing with transportation allowances broken out. (e.g.: Prepaid and Add)

- **Zero-sum Game** - One company's inbound transportation is outbound transportation for their suppliers. Not everyone can control all transportation activities of an organization as this is just not feasible.

How Do You Do This?

As always, there is never a single model to follow to achieve your end goals of Controlled Inbound Transportation, but there are a number of common actions and principles that have emerged. These include:

- **Establish a common vision and expectations** - Do this early, and keep the vision throughout the process, which may be longer than anticipated.
- **Set realistic goals** - Controlling 100% of your inbound is not realistic, nor does it provide optimal cost benefits. Set a goal that optimizes your procurement and transportation activities

- Continued -



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- **Undergo a pilot program** - Compile a short list of select suppliers to get "low hanging fruit", quick wins, and help define process steps and integration points.
- **Develop a comprehensive communications plan** - Create cross functional understanding of your corporate vision and expectations for this activity.
- **Create a negotiations training plan** - Include specific negotiation training and tools that help purchasing identify, overcome and respond to objective suppliers. Many have deep relations with their supplier partners, and this will challenge these relations.
- **Integrate (and update as needed) your TMS** - Analyze the new optimized transportation structure for your newly controlled inbound and outbound network. This may also help to determine which vendors should be used for a pilot program.
- **Engage your carrier network** - Early on, compile lane cost data for high volume, targeted inbound vendors. Use only select, core carriers, who will provide the data without allowing your activities to leak information to your suppliers. As you move forward in negotiations, the carriers contracts require updating, with volume commitments and lane configurations included.
- **Establish Review Periods** - Vendors networks, as well as your own, will continue to change over time and therefore have variable benefits of controlling the freight. There will be times that vendors change origin points or lanes which will make them less desirable in the network. When this occurs, there should be a

process to change back to vendor controlled freight.

Can a TMS or 3PL Help ?

Yes - and some will argue that a TMS is required. The efficiency savings that have been discussed (e.g.: continuous moves, load building, etc.) will be optimized through the use of a TMS system. This is not to say that it cannot be done by hand, in fact your early pilots may be routed via a manual basis, but to achieve ongoing savings in a time efficient manner, a TMS is almost mandatory. 3PL's will also assist - and should be working with you on a continuing basis to complete this activity. Especially when you have overseas suppliers, the 3PL's network of foreign affiliates (company owned or agents) will allow you to control foreign inland freight through to delivery at your facilities. This may also include Customs Brokerage activities.

Are You Ready ?

We have developed a "Stages of Excellence" summary (See Table 2) that we use with clients to assess their readiness to control their inbound network. For Stage 1 and Stage 2 clients, there are likely other transportation activities that will be easier to complete and provide an equivalent amount of benefit. Stage 3 clients are primed to undertake these activities, and Stage 4 clients have been doing this for some time. Assess your organization honestly to determine your how well you are positioned to undertake an objective to control your inbound freight.

Table 2: Inbound Transportation Stages of Excellence -

Stage 1 -	Stage 2 -	Stage 3 -	Stage 4 -
<ul style="list-style-type: none"> • 0% Inbound Freight Collect • 0% Purchased goods invoiced as Prepaid and Add • No visibility of inbound freight - shipments "arrive" at destination • Transportation and Purchasing not aligned 	<ul style="list-style-type: none"> • 10% - 15% Inbound Freight Collect • Less than 25% Purchased goods invoiced as Prepaid and Add • Limited supplier collaboration (some emails, not integrated into other systems) • Transportation group provides data analysis to Purchasing as needed 	<ul style="list-style-type: none"> • 20% - 35% Inbound Freight Collect • 25% - 40% Purchased goods invoiced as Prepaid and Add • Has initiated freight conversion activities for select vendors • Identified product categories to determine freight costs based on weight, CoGS, etc. • Transportation aligned with Purchasing 	<ul style="list-style-type: none"> • 40% (+) Inbound Freight Collect • All non Purchased goods invoiced as Prepaid and Add • Assigns freight costs based on SKU level data, weight, or CoGS • Limited supplier collaboration for inbound shipments (some emails, not integrated into other systems) • Transportation is vital part of Supply Chain and purchased/ total cost methodology

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