# Inbound freight plan can deliver savings

While most companies have made great progress in their outbound supply chain, better management of incoming logistics can lead to exponential gains

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Savvy manufacturers have long understood that transportation expenses represent a lion's share of landed product cost.

In recent years, chemical companies have made great strides in cost savings and related improvements to their outbound supply chain through better planning methodology, mode/carrier selection, shipment consolidation and communication. Enhancements to outbound shipment visibility and to information timeliness and quality have further helped.

But once outbound value has been realised, where can a manufacturer focus for more gains?

Better management of the inbound supply chain can offer rewards exponentially higher than the improvement potential still remaining under an outbound focus.

Many manufacturers, however, hesitate to optimise inbound freight activities as they feel a higher comfort level and familiarity with outbound shipping. On the inbound side, operations are more complicated.

Vendors commonly control shipment of their products, with cost of transportation often embedded in product cost. If a manufacturer relies heavily on a particular vendor for a certain product, they want to avoid upsetting that relationship by asking questions or making demands. Vendors, also, are not always quick to share information about their production schedule and shipping plans.

Consequently, cost and service is impacted, resulting in inefficiency, and, invariably, higher costs.

On the cost side, manufacturers may not know the true cost paid for inbound freight. The vendor may not charge competitive rates, may not be using the most cost-effective mode, or just may be scheduling shipments poorly. In some cases, freight cost passed along to a manufacturer may exceed the vendor's actual cost.

On the service side, manufacturers struggle for visibility into inbound shipments, which can result in earlier product receipt (increasing inventory) or not receiving a product on-time (risking plant shutdown). Lack of visibility can also mean that the manufacturer must overstaff in Receiving to avoid being shorthanded when inbound shipments do arrive.


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**Calculating the cost of inbound freight can help manufacturers find savings**

## PROACTIVE STEPS

Below are some steps that manufacturers can take to gain control of inbound transportation:

■ Analyse and understand inbound lanes and freight flows.

■ Identify origin/destination pairs, shipment volumes, consistency in frequency or schedule, vendor locations (some may have multiple sources), product received from each vendor, modes and carriers being used.

Gaining access to this level of detail can be challenging, but it should be available in your ERP or accounts payable data.

■ Determine whether inbound freight cost is a separate line item or part of product cost.

By identifying how and where freight is billed, shippers can isolate freight cost. Keep in mind, vendor prepaid freight is not free, even if the vendor is not explicitly stating freight cost. Be assured that freight is, indeed, included in product cost even if it is not separately itemized. Understanding your level of cost visibility will allow you to determine the level of effort required for the next step.

■ Establish an inbound freight cost baseline.

On a lane-by-lane, mode-by-mode basis, calculate the cost of your inbound freight activity. If the freight cost is embedded in product cost, ask your vendor to break it out. They may not want to, but it's the only way you can get visibility to their cost. If the vendor refuses, you may need to utilize a logistics partner with a strong rate database to establish baseline freight costs where actual data is unavailable.

These costs can be used as the baseline for measuring the value/cost savings potential of gaining control of inbound freight expenses.

■ Determine who currently manages the inbound freight and carrier relationships.

While it is most likely the vendor pulls the trigger to start an inbound shipment, it's possible someone in your organization is involved. Besides confirming who plans and executes the inbound shipment, you'll need to know who holds the carrier contracts.

The carrier contract relationship might need to be changed. If the vendor holds the contract with the carrier, the manufacturer will need to establish its own carrier contract or have their third-party logistic provider (3PL) establish a contract with the carrier.

■ Identify which vendors or lanes that need to be converted first.

A "big bang" rollout is not advised; efforts to optimise shipment lanes are best managed in a phased approach. Several ideal places to start include 1) where you see the greatest savings opportunity 2) where you work with a cooperative vendor or 3) in a geographic area.

By selecting a starting point with a high probability for success, manufacturers can set the tone for the project.

You should also identify any vendors whom you may not want to convert at this time.

■ Establish a conversion strategy, including project timelines and dedicated resources.

Depending on the size of your inbound network, the conversion effort may take a number of months to complete. A clearly defined project plan, with milestones and deliverables, ensures project traction over time. Resources dedicated to move from one phase to the next will allow for continuity and the development of best practices.

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■ Communicate regularly with vendors, carriers and within your own organization

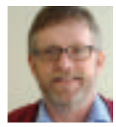
Obtaining information regarding inbound freight, timelines, lane rates and other critical data will certainly require process changes for vendors and carriers and possibly your plant locations.

Management and other in-house teams will be keen to know how the initiative is progressing. Frequent updates ensure everyone is on the same page and provides a vehicle where questions or concerns can be addressed.

### CONCLUSION

While these points serve as a basis for discussion, much more detail is required for a successful inbound supply chain conversion effort. This is no small task, especially if there is a long history of decentralised control.

But the manufacturer who undertakes this journey, despite the challenges, will be richly rewarded with tremendous gains in cost savings, service improvements, efficiency increases, and a substantial competitive edge. ■



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