

“Addressing Express Logistics”

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**Uplifting Thoughts from
Michelle Mone**

Shoplifting By Delivery

Freight Cost Management

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EDITORS
WELCOME



Brian Regan

The high cost of fuel remains the biggest cause for concern amongst carriers, who are continuing to be squeezed by rising operating costs and pressure for earlier payment terms from suppliers, whilst facing downward pressure on haulage rates and lengthening payment terms from customers. The largest contribution to the rise came from an increase in the price of diesel, which has risen by 13.9 per cent in the year to 1 October 2011. In addition, overheads have risen by 5.6 per cent in the same period. Commercial vehicle operators are under intense pressure from their customers to suppress haulage rates at a time when the cost of running a vehicle has risen inexorably and fuel prices nearing record levels. This 'squeeze' has left balance sheets fragile and carriers vulnerable during a period of weak economic growth.

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Transport News Group, Sybrig House
Ridge Way, Donibristle Industrial Park
Hillend, Dunfermline KY11 9JN

Contact Details

Web: www.thedeliverymagazine.com
Email: info@thedeliverymagazine.com
Tel: 0870 4430 270
Fax: 0870 4430 271

Management

Editor & Director Brian Regan
National Account Manager Alex Ellis

Design Team

Design & Layout Key Design, Glasgow
Web & Graphic Design Andrew Rourke

Contributors

John Sharman of Transactis
Iqbal Pannul of AEB International
Sarah Moreton of Ketchum Pleon

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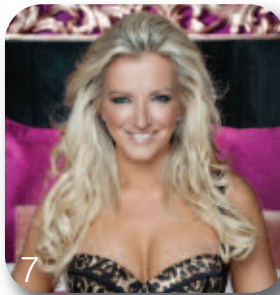
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Effective Freight Cost Management – a way to deliver significant savings

One of the biggest challenges in export is keeping freight costs down and performance up while managing the payment process in a fair and transparent way for all parties involved, both internal and external. Freight cost management can be a tedious, time-consuming task due to the sheer number of invoices to be processed, the complex rate and tariff structures to which they are subject, and the broad range of criteria that must be applied to determine the correct rates. Fuel surcharges, weight, volume, delivery service type and transportation mode used are just some of the factors that need to be taken into consideration.



There are good reasons for keeping an eye on the internal auditing process. Many shippers continue to maintain their rates in spreadsheets and calculate their consignment freight charges manually. Logistics teams consult the freight rate tables provided by the forwarders and service providers and then allocate the applicable freight costs to each business unit, address discrepancies with the forwarders and initiate payment arrangements through the finance team. This process is highly labor-intensive and error-prone. As it is too time-consuming to manually check each and every invoice, logistics teams tend to perform random invoice checks. As a result, incorrect bills often go unnoticed.

Companies could save a lot of time and money by adopting advanced technology to replace the manual freight cost handling with an automated carrier selection, quote management and invoice verification process. With automation, every single cost component is examined line by line, realising immediate savings through the elimination of human errors. By implementing the right IT solution, organisations can automate their freight management processes, including but not limited to: determining transportation options (including carriers and modes), handling of large, perishable, dangerous or high-value shipments, comparing and managing quotes, calculating and reallocating freight costs, and verifying freight invoices. This frees up manpower, giving logistics teams the opportunity to fix weak links in their supply chain, source better rates and streamline processes. In addition to saving costs, adopting an IT solution for freight management is a way of improving business processes and productivity and thereby gaining a competitive advantage.

In general, there are three ways to implement a freight cost management IT system: In-house, SaaS (Software as a service), or a completely outsourced service. What type of implementation a company chooses depends on various factors, such as IT capability, security, company size, transaction volumes etc. Another key concern is whether the software integrates quickly and seamlessly with the organisation's existing software and with that of forwarders and partners. Companies must ensure that the system reduces operational time, removes unnecessary costs and provides better information for calculating and reallocating freight costs. There is a range of solutions on the market, but ideally companies should choose one that gives them efficient control over their transport costs. At their best, software solutions let

shippers know exactly what the costs for upcoming transports will be. Freight costs can be calculated in advance to support sales or during goods issue/receipt, and expected invoice amounts are compared with those actually billed. An automated system can take a complete set of quotes, analyse the various methods of calculation, cost components (e.g. weight or volume, distance in road kilometres or tariffs, zone and freight-dependent costs, service types) and show all available options and their respective costs. It helps to quickly compare and analyse various scenarios related to the freight transportation (e.g. air vs. sea; freight

forwarder A vs freight forwarder B). Additionally, it provides better control and visibility on freight costs and ancillary charges drilled down to SKU- level, allowing users to quickly and precisely automate the reallocation of freight costs to customers, suppliers or internal cost centres.

However, freight management is just one aspect of the entire supply chain. Other areas of logistics execution such as transport management, warehouse management, risk management etc are also opportunities to reduce costs, improve visibility and gain business intelligence. A state-of-the-art freight management solution can simply be the first step to further optimising the supply chain and keeping a business ahead of its competitors.

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