5 key strategies to control shipping costs

introduction

Many companies feel a constant strain on their businesses in the form of ever-increasing expenses. Day-to-day business expenses such as rent, utilities, and insurance all continue to climb, while competitive pressures deter companies from raising prices to cover any shortfall. Businesses must find a way to cut operating expenses.

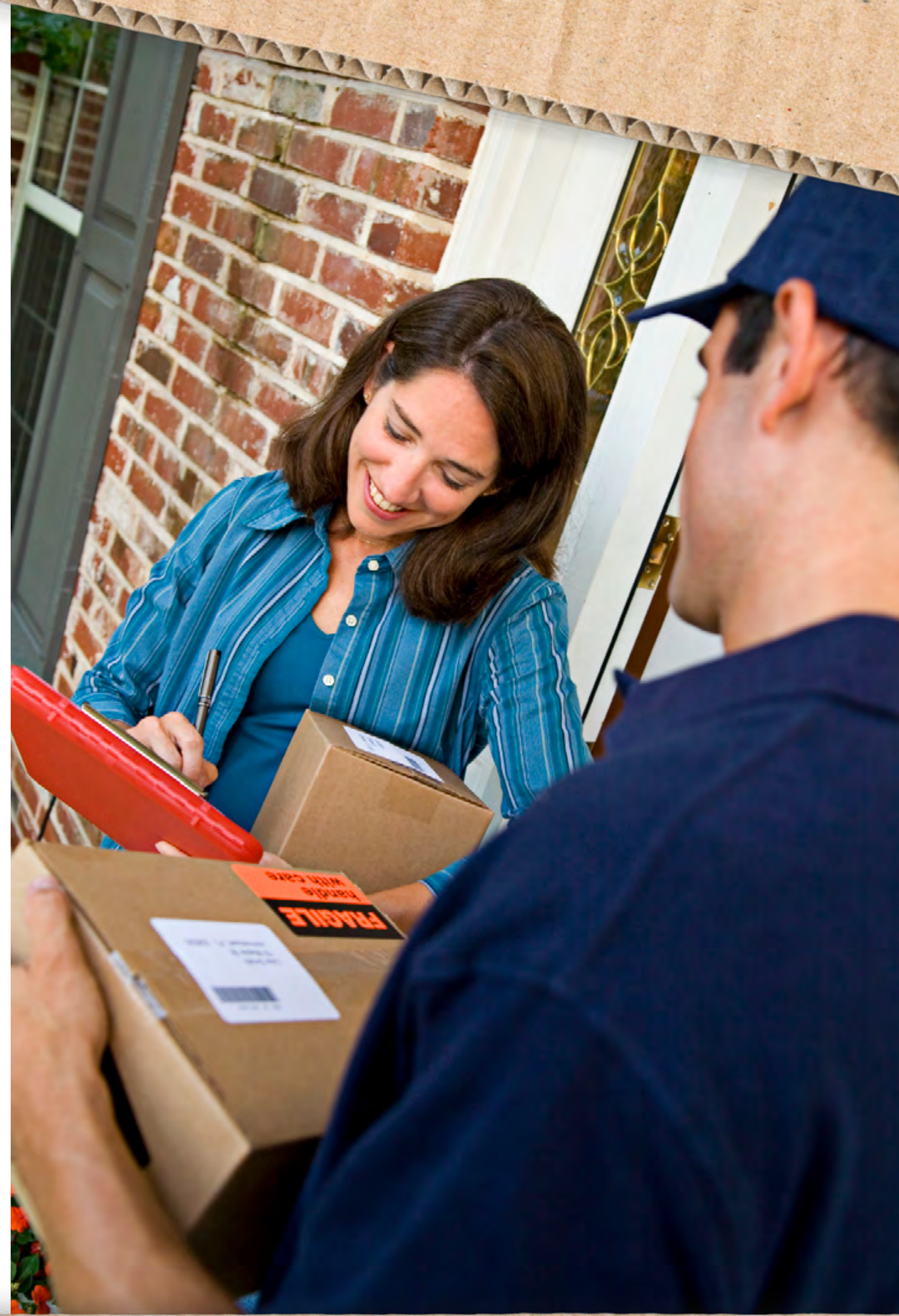
Reducing shipping costs is an often overlooked way to combat rising expenses. With annual carrier rate increases, skyrocketing fuel costs, and accessorial charges that may increase 20% or more year over year, finding a way to reduce your shipping expenses can make a serious impact on your overall balance sheet.

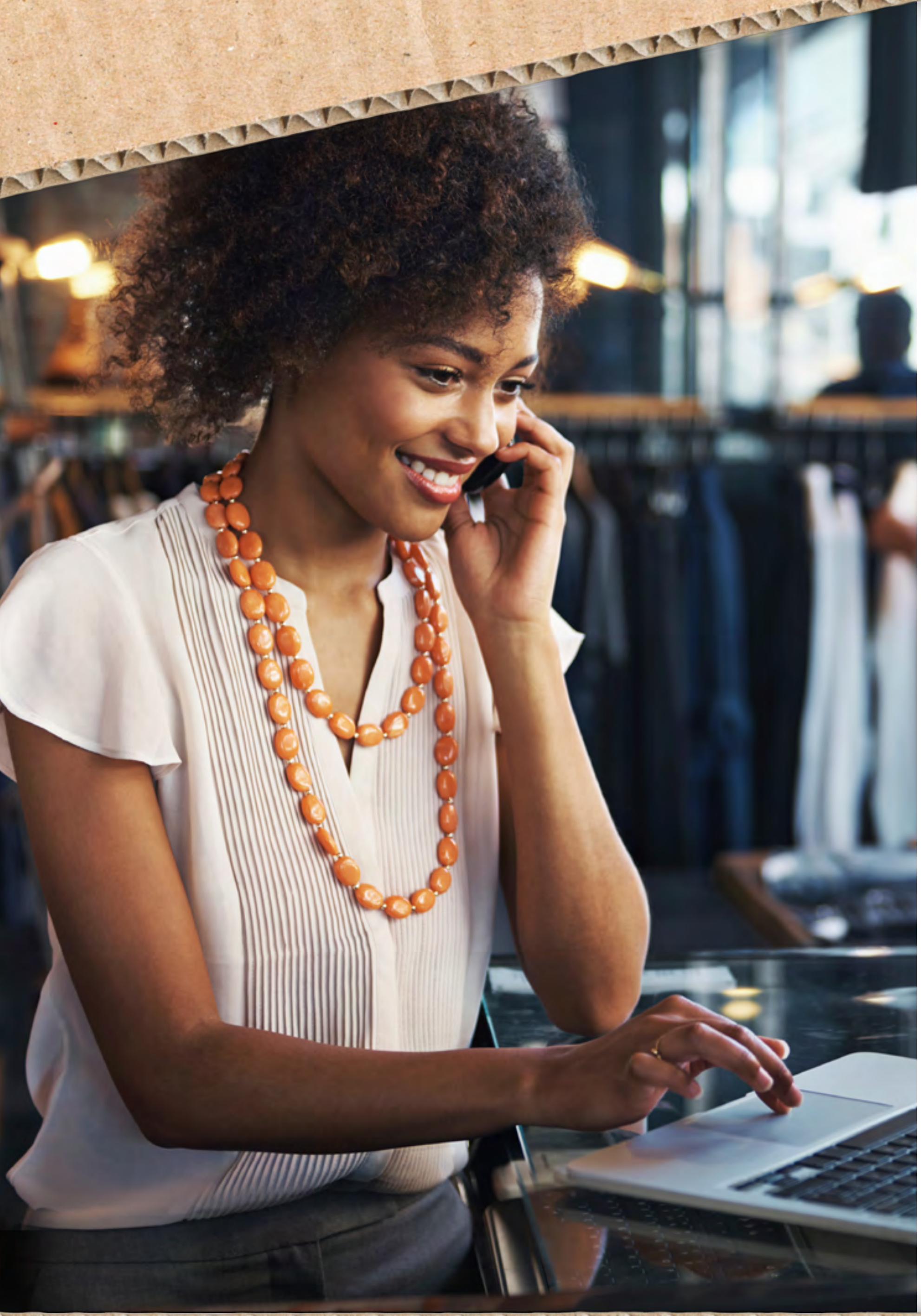
But how do you know if you're spending too much on shipping? One easy way is to determine your shipping expenses as a percentage of total sales. On average a business spends 1.5% to 4% of total sales on shipping. This can vary by the size of the company, total company sales volume, or the type of products the company is shipping and receiving. How much is your business spending on shipping? Conduct an analysis.

Here are five key strategies to help you get your shipping costs in line. Implement one or all five of them and watch your shipping costs go down – increasing profits.

key strategy #1 obtain discounts with carriers

If you think you have to be the size of Wal-Mart or Home Depot to obtain discounts with carriers, think again. Many larger businesses have the volume and favorable shipping characteristics to negotiate directly with carriers. If you, too, have been able to successfully navigate this process, you are on the right track. If you have **not** been successful, or simply don't have enough volume to negotiate such discounts, there are still opportunities available to obtain them. You can work with a 3rd party logistics provider (3PL), who can leverage their buying power to obtain discounts for you. There are also many institutional, government, and association programs that can help members receive discounts.





key strategy #2 develop an inbound shipping program

Reducing inbound shipping costs is one of the easiest, yet most overlooked ways to reduce overall transportation expenses. Vendors typically receive volume discounts from carriers – but are your vendors passing those discounts along to you? When you control and route your inbound shipments, you have an excellent opportunity to significantly lower your costs. If you allow suppliers to route your shipment and invoice you for shipping charges, your transportation costs are probably higher than they should be. Being the buyer allows you to not only determine **what** you purchase from a particular vendor, but also **how** it is shipped to you.

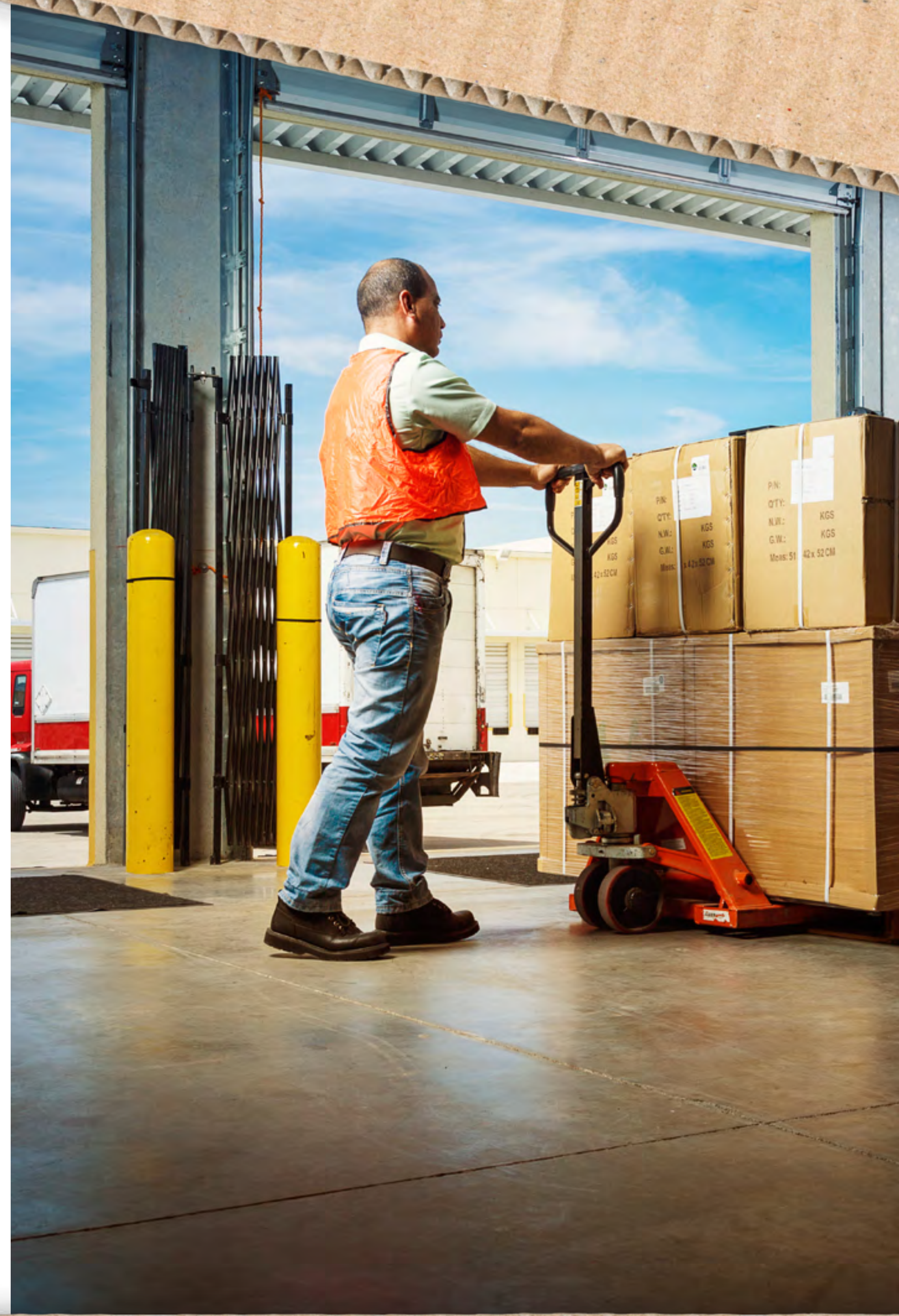
As the buyer and receiver of the goods, you can – and should – designate the carrier. If you continue to allow vendors to prepay for shipping and add it to your merchandise invoice, in most instances you will continue to pay more than you should for incoming product.

The first step in reducing inbound shipping costs is to notify your vendors via a Customized Routing Instruction Letter. This letter specifically states to your vendors how you want your merchandise shipped to your store. In your Routing Instructions Letter, indicate to the vendor that if they do not follow your shipping instructions, you will not pay for shipping charges on merchandise invoices, and allow no exceptions to these instructions. Send the Routing Instructions Letter to your sales representative, customer service manager, or to the accounts payable department. Do **not** send your instructions directly to the shipping department.

key strategy #3 use the correct mode & service level

Examine where you spend your transportation dollars. Is your spending concentrated in less-than-truckload (LTL) freight rather than small package, or air instead of ground? These distinctions are called modes of transportation. Ground shipping and air shipping are the two most common transportation modes that businesses use on a day-to-day basis. An example here helps illustrate the impact of using the correct mode. For two-day guaranteed service, you can send a 35 lb. package from Cleveland to Boston and pay a ground rate of $16.50. Sending the same package second day air would cost approximately $60.75. That's a difference of 73% to ship air versus ground for the same two-day level of service.

Service level refers to the timeframe in which the carrier will ship the package from origin to destination, such as same day service, next day, two day, three day, etc. Why pay for next day service if you don't need next day service? Another example helps illustrate the impact on your bottom line by using the wrong level of service. Let's use the same example above. To get a 35 lb. package from Cleveland to Boston the next day, you would need to use the services of an air express carrier and your cost would be around $168. If time permitted, you can send the same package second day air at a cost of approximately $60.75 (a 64% savings). The same package via two-day ground costs about $16.50. Clearly, using the correct service level to meet your needs is critical in keeping your transportation costs down.

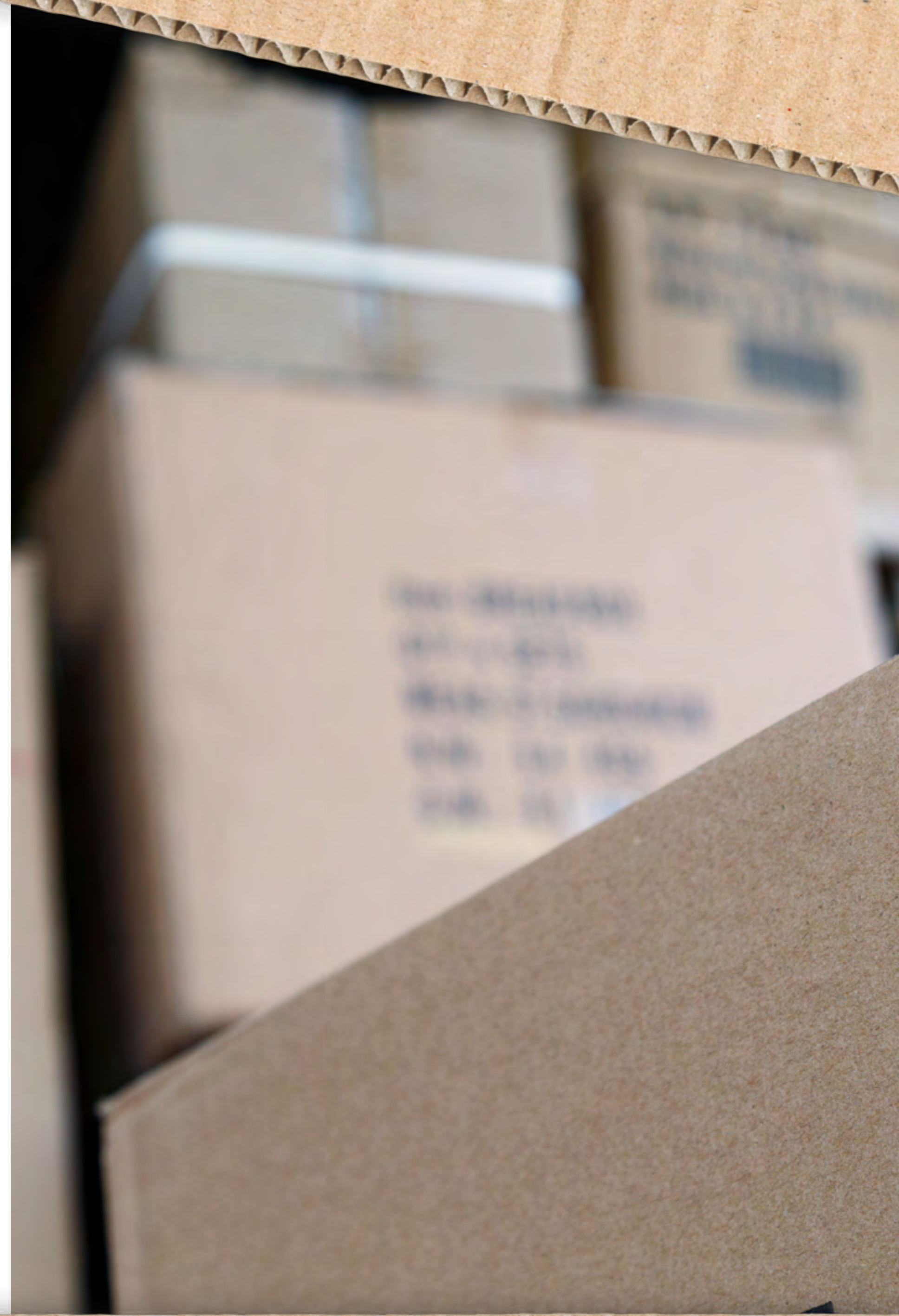


key strategy #4
audit all invoices

It is estimated that between 5% and 10% of freight invoices contain some sort of error. Auditing your freight invoices can help you catch and receive credit for costly mistakes. You should audit several line items on a carrier invoice, most notably: checking for the correct discount, making sure you are billed for the service you requested, verifying product classification (freight shipments only) and monitoring extra service charges. Also, if you have an inbound shipping program in place, be aware of double billing for shipments. If you're routing inbound shipments from vendors, shipping charges should never be on the merchandise invoice from the vendor.

key strategy #5 consolidate shipments

Why send three separate shipments if you can consolidate and send just one? Consolidation will save you time and money, as an example here helps illustrate. For two-day guaranteed service, you can send a 45 lb. package from Cleveland to Boston and pay a ground rate of $73.50. Sending three separate 15 lb. packages would cost approximately $99. That's a difference of 26% to ship one versus three separate shipments!



conclusion

Utilizing some or all of the 5 key strategies to control shipping costs can eliminate the strain shipping expenses put on your business. For more information or additional help on implementing these key strategies call PartnerShip at **800-599-2902** or email sales@PartnerShip.com. Your shipping costs will go down and your bottom line will improve!

Ready to learn more?

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