"Making The Most Of Your Shipping Dollars"

Ship! Magazine (Fall 2000)

By Tim Sailor

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One of the biggest mistakes distribution managers make when it comes to negotiating express carrier contracts is arriving at the table unprepared because they didn't gather data about their shipping characteristics and shipping needs," said Mr. Tim Sailor, president of Navigo Consulting Group, Long Beach, CA. Mr. Sailor believes this common mistake can be credited to two factors: lack of time to analyze shipping data and an assumption that that the carrier will automatically offer their lowest rates.

"A lot of what I do as a consultant is take historical samples of shipments to know exactly how many shipments are going out, by what carrier, by what class of service, the weight, the delivery dates, the residential/commercial delivery mix, and of course the cost. I also do a zone analysis to see where all the packages are going," Mr. Sailor explained. "Knowing what the characteristics are really helps you go after the best rate."

Most companies he consults for did not do this type of historical data collection; rather they only knew how much they were spending per month with a carrier (i.e. $ 100,000 a month with FedEx). In short, they knew where the money was going, but didn't know what it was going for.

Part of matching the carrier contract with your needs is comparing delivery requirements with carrier guarantees. A company with high volumes of overnight mail needs to ask, "Does everything need to be delivered by the next morning or by the next day?"

There are some substantial savings available by focusing on service commitments and performance and not modes of transportation. Consider both ground and LTL shipping which can offer overnight time definite deliveries within certain zones. Also, according to research conducted by Navigo, think about utilizing standard overnight freight which mostly gets delivered the next morning at a substantial savings over priority next day.

"Managers need to look when a package needs to get there versus how it is being shipped," said Mr. Sailor. "Most companies back into their shipping requirements by saying, 'this is what we do today, and this is what we need.' A better way is to open up the entire process by evaluating, 'when does the package have to get there?'"

A West Coast medical reference lab company required a special box size that dimensionalized a 6 pound package to a 15 pound package, and thus brought with it an oversize surcharge. After Mr. Sailor identified this issue and quantified the data, he developed a request for proposal (RFP) that required carriers to meet a DIM factor of 250, not the standard 194. That one change, going from a 194 to a DIM factor of 250 saved the client $150,000 a year without any additional rate negotiations.

Besides not analyzing shipping history and establishing shipping requirements, Mr. Sailor said another common mistake is not opening up the negotiations to all carriers. "Don't put perception before performance," he warned. "One of the reasons I like the RFP process is that it is an equal and neutral platform to review the carriers. Make sure you include all the carriers and make sure you spell out your service requirements. By having the carriers respond to the service requirements you can rate response and past performance, not on perception," Mr. Sailor said.

In developing the RFP it is crucial that you note all the "special services" being performed by the incumbent carrier and include these in the RFP. While the incumbent carrier may be the only one willing to customize their service for you because you represent a big client for them, all potential carriers need to know about this level of service so they can match it.

As part of opening the RFP up to all carriers, Mr. Sailor also suggested setting RFP's for primary and secondary business. "If you have the volume it is very possible to say, 'I will guarantee the primary carrier "X" dollars ($100,000), but I am also going to award a secondary contract for a carrier based on "Y" ($20,000). Indicate that you are looking for two-sets of pricing from each carrier, so they can bid as a primary and/or a secondary," he said.

Mr. Sailor related the story of one carrier that, because of the characteristics of the air package, could only bid on the ground portion of the contract. They came in with a very aggressive stand-alone ground bid for a contract that called for $15,000 a month of ground, when the major portion of the contract was for $100,000 a month in air. In this case, the client went with 2 carriers and received deeper discounts on both their air and ground shipping. Using multiple carriers can be a viable cost savings option and even more viable from an operational standpoint if you have a multi-carrier processing system that offers a least-cost routing option.

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