



Most manufacturing companies manage the pennies carefully in their production costs. They are on the lookout constantly for ways to lower labor expenses or to wring material cost savings from suppliers. Usually, this is done systematically and in a continuous fashion.

By contrast, however, many of these same companies are much less aware of similar opportunities to improve profits through better management of their transportation spending. In fact, in the past two to three years, freight costs are rising more quickly than any other part of direct spending. Several factors are causing this trend:

- Suppliers are often located further away, as a result of plant consolidations and low-cost sourcing efforts
- Dramatic jumps in the price of oil have triggered fuel surcharges for many freight movements
- New Department of Transportation regulations and supply/demand imbalances in over-the-road truck drivers have combined to raise freight rates
- Customers are demanding more just-in-time deliveries, tightening service requirements and creating the need for more frequent, smaller shipments
- Pressures to lower inventory levels have aggravated supply shortages and the need for more frequent use of expensive premium transportation

Is this inevitable? Can anything be done to reverse these trends and to lower transportation cost? The answer is a definite "Yes"!

Many companies of all sizes are finding that such savings are possible through a systematic evaluation of their transportation network and business practices. They have achieved overall reductions of 10-15% on their annual transportation spending by reviewing current freight patterns, finding ways to improve equipment and resource utilization, helping them negotiate more favorable rates with carriers, and establishing business processes and metrics to sustain those actions effectively over time.

Two recent examples illustrate the kinds of actions which can produce these results. Company A is a small firm in the Western U.S. who now imports most of their products from Asian sources, primarily in China. These shipments were moving by ocean container into a West Coast port, then transshipped by truck to their distribution center. Through a combination of increased use of 40' vs. 20' containers, better rate negotiations with carriers and forwarders, and establishment of cycle time metrics, they were able to save 10% on a \$2M freight spend. Also, total transit times were reduced from 34 to 25 days from factory to DC stock.



Company B is a mid-sized automotive parts supplier relocating a number of production lines to their Mexican factories as part of a program to improve cost competitiveness. Based on a thorough analysis of inbound material movements from suppliers, the creation of a consolidation program -- with multiple suppliers collected into more efficient line haul shipments -- and better materials scheduling practices, the company was able to reduce the cost of regular and premium freight charges by almost \$2M on a base of \$8.7M prior year spending. The positive impact was even greater since the effort prevented increased costs due to longer supply lines from U.S. suppliers into Mexico and also provided ways to limit fuel surcharge increases by effective use of third-party logistics providers.

As your business faces cost challenges next year, amplified by the mix and volume changes in today's business environment, you should consider ways you can help your business secure cost savings in transportation. The timing is crucial today. As oil prices stabilize or even come down in the short-term, this is the time to re-evaluate your transportation activities. The opportunity to get lower costs for 2009, including rolling-back recent fuel surcharges, will only come through concerted action taken this Fall.

***With more than 25 years of experience as an operating executive in logistics and supply chain management, Abbott Weiss specializes in helping his clients achieve well-integrated, high-performance organizations. His world class knowledge in supply chain spans strategic planning, materials systems, transportation and inventory management and order fulfillment.***

***Advanced Purchasing Dynamics was founded in 2004 with the mission of helping manufacturing companies profoundly expand their procurement skills. Dr. Weiss and APD have helped numerous clients achieve accelerated and sustainable reductions in transportation costs while developing and strengthening their purchasing organizations.***

***For information on how APD can help you or your company improve transportation costs call 734-927-0836 or e-mail [jburris@apurchasingd.com](mailto:jburris@apurchasingd.com).***

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