

LOGISTICS SPEND MANAGEMENT:

**SAVINGS
OPPORTUNITIES
IN
THE
SUPPLY
CHAIN**



Service Through Specialization

Food | Beverage | Retail

Because transportation operates in the chaos of the real world, it's subject to more unpredictability than other business processes. Carriers must operate in the realm of ocean storms, blizzards, and other natural hazards, along with operational errors or mechanical or infrastructure failures (infrastructure variability can account for half of variability in transport costs). Market unpredictability further aggravates the chaos – demand may increase beyond carrier capacity or, worse, demand may suddenly evaporate, leaving carrier vehicles and warehouses filled with "dead" stock.

Because of this overall unpredictability, shippers must deal with things like vendor chargebacks and premium rates for expedited shipments. Wise shippers and carriers closely monitor situations and develop as many contingency plans as possible, but a complex world makes it impossible to plan for everything. That being said, there is a way to make insightful sourcing and spend decisions that ultimately reduce total logistics costs.

Drivers of Logistics Costs

Transportation is a key part in the operation of logistics, and the major cost in moving goods—between 40 to 70 percent of the logistics effort. These costs are largely unavoidable; after

all, transportation is the very means by which an organization reaches its customers. But there are opportunities to reduce logistics spend by improving internal processes and decisions around the drivers of transportation costs. Below are some examples of key drivers of logistics costs:

Distance

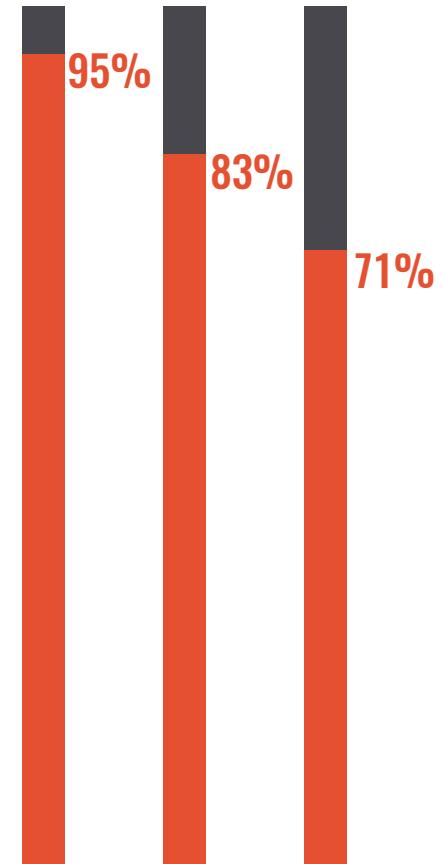
The price of fuel – mainly diesel – is a major factor in the cost of shipping goods. Unfortunately, it can be difficult to accurately forecast these prices as world fossil fuel prices are cyclical. Carriers often attempt to minimize the impact of fuel price increases by adding fuel surcharges, but customers throughout the supply chain ultimately take on the burden.

Increasingly, companies are withdrawing from manufacturing sites in Asia and instead "nearshoring" to North America and the Caribbean, as shorter distances equal lower fuel costs across the continuum of land, sea, and air transportation. In the United States, international imports have driven transportation costs for decades but even as more companies nearshore, domestic transport capacity shows no sign of dropping; by 2040, [freight volume is expected to grow by 68 percent](#).

Trucking, a primary component in nearshoring, continues to have capacity limitations that impact domestic transportation costs. Those mainly stem from the decades-long driver shortage. Also, recently-enacted

federal hours-of-service and electronic logging device (ELD) regulations have slowed trucking productivity, further pinching capacity. We conducted a [survey of 100+ truck drivers](#) to gain pointed insights about ELD impacts and discovered that 71% of respondents say per mile rates have increased to make up for lost revenue as a result of struggling to make deliveries on time under the new mandate. Since the ELD mandate:

- 95 percent said it is more difficult to make deliveries on time
- 83 percent said productivity is down
- 71 percent said rates are up



Zipline Insight:

Although smaller fleets (<30 trucks) view loads with shorter haul lengths as more desirable and larger fleets (>30 trucks) view them as less desirable, the length of haul desirability for both flips between 450-700 miles. It is in that range that for many smaller fleets, a load goes from a one-day point to a two-day point. The extra day of transit poses a high opportunity cost for these carriers, opportunity costs that carriers with larger driver pools can avoid by keeping these lanes to a one-day transit.

Shipment Sizes

When fuel costs are in a lower price cycle, there is a tendency among supply chain members to apply lean processes, including just-in-time (JIT) deliveries—small, fast, and frequent deliveries that get materials and goods to customers as needed.

Holding inventory is costly, including storage and warehousing costs with related expenses of security, labor, and logistics, along with the problem of tied-up capital. Conversely, the tradeoff of JIT is that the investment instead goes toward transportation with increased costs of more frequent deliveries and premium freight rates to JIT-oriented carriers. When fuel costs are high, supply chain efficiencies are critical to minimizing total logistics costs. As a result, shippers may consolidate freight movements – such shipments are larger, meaning freight consignees must often pay higher inventory carrying costs. But larger shipments mean more available safety stock, so there can be an improvement

in customer service and fewer costs for expediting freight to and from warehouses.

Density

While having value in transportability and protection, product packaging has primarily been a marketing consideration instead of a logistics concern. But more organizations are focusing on packaging to cut transportation costs. That's why IKEA requires customers to assemble the furniture they purchase since unassembled components require less space to be shipped. Reductions in package size and weight, as well as fewer packaging materials, allow a higher density of goods or materials to be shipped at once.

Optimized packaging can also decrease the number of shipped containers, which can have a significant impact on total transport spend. In one example, a global footwear producer reported [operational savings of \\$1.2 million](#) in just the first year thanks to optimized packaging that decreased the number of shipped containers by 12 percent.



Untapped Savings Opportunities in the Supply Chain

The supply chain is ripe for savings—if you know where to look. The complex, multi-faceted nature of today's supply chains means there's no shortage of cost reduction opportunities. And considering that organizations can increase profits without having to increase sales, it's easy to see the big attraction of discovering untapped savings opportunities in the supply chain. Running a spend analysis is the first step to understanding what and where you are spending the most, and therefore where you might look for savings.

Gain More Visibility into Your Supply Chain Spending

Spend analysis is becoming increasingly important as organizations look to maximize profits by cutting costs and identifying inefficiencies. Some 67 percent of sampled businesses responding to a survey said spend analysis was a high priority for their procurement efforts. Not only do these analysis help identify opportunities for cost savings, but also inform supply risk management initiatives by identifying the more complex risks faced by an organization from its supply base. But it's not easy. Securing

(and interpreting) workable data from multiple sources is challenging, although automation innovations are increasingly able to tame the chaos. Generally recognized steps in a spend analysis include:

Collection of spend data

Securing and recognizing good data is the foundation of effective spend analysis. This data should come from multiple sources to ensure true visibility into all areas of spend. In fact, [best-in-class organizations](#) demonstrate that they are 21% more likely than all other organizations to collect spend data from multiple sources. Sources of supply chain spend data can include:

- Accounts payable
- General ledger
- P-cards
- E-procurement systems
- Purchase order data
- Travel and expense summaries
- ERP system(s)

KanoPI, Zipline Logistics' shipper intelligence platform, allows users to identify specific cost drivers and make more informed supply chain decisions.

[Schedule a Demo](#)

Data cleansing

Cleansing data includes standardizing it, removing errors, and ironing out inconsistencies which may be complicated by different procurement processes and coding across a complex, worldwide organization. For instance, one part of the organization may code a vendor by the name of the parent company, another by the name of a subsidiary. Cleansing includes correcting typographical and spelling errors in the data, classifying it using standards such as the United Nations Standard Products and Services Code (UNSPSC), the Standard Industrial Classification (SIC), the North American Industry Standard Classification System, and reconciling worldwide exchange rates.

Data classification

Data classification helps identify spend practices and trends. Vendors can be grouped (parent company with subsidiary, for instance), and a manufacturer might classify the spend into process groups, then into types of raw materials.

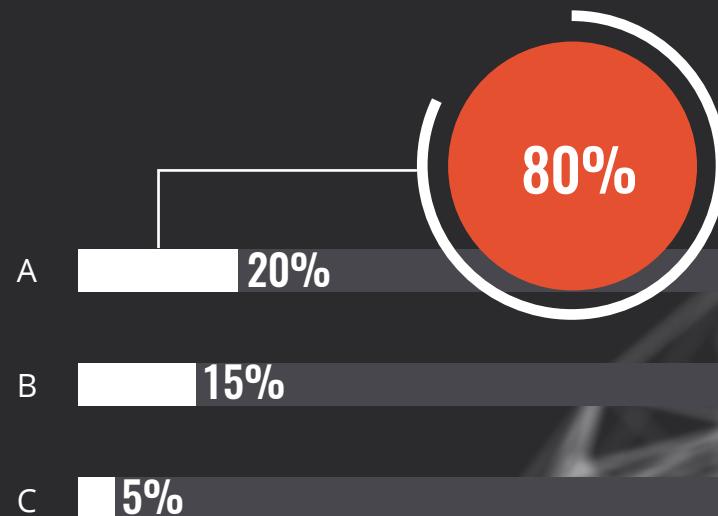
Spend categorization

While some part of the spend can be difficult or essentially impossible to address, such as certain fixed costs and taxes, there needs to be classification of addressable spend into categories that reflect the markets the organization taps. Fuel, tires, and vehicle maintenance might be considered "fleet expenses;" hotel and airfare might be classed as "travel."

Spend identification

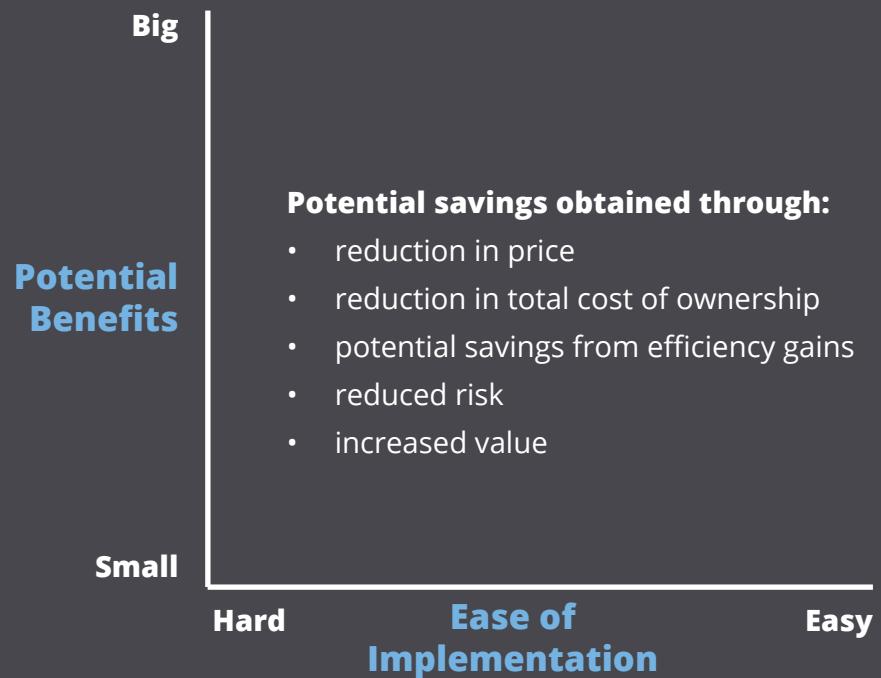
Focus on high-impact spend follows since savings here presumably will yield the greatest benefits to the organization. One way to identify high-impact spends is to use an ABC-analysis so you can focus on just those categories having the highest impact on spend.

- A – Since 20 percent of spend categories often consume 80 percent of the spend, these are listed as “A” categories.
- B – The next 15 percent become “B” categories
- C – The remaining 5 percent are “C” categories.



Opportunity analysis

Finally, there is the execution of the opportunity scan. A helpful tool is a matrix with the y-axis moving up the scale from small to big savings. The x-axis moves toward ease of implementation, from easy to hard. Possible savings can be obtained through reductions in price, total cost of ownership, efficiency gains, reduced risk and/or increased value. Plotting the results of the spend analysis thus far will allow you to visualize spend management priorities ranging from High Priority (easy to implement, significant potential savings) to Avoid (hard to implement, small potential benefit).



This includes:

- ease to bring change to the organization
- ease to realise the estimated benefits

Spend Analysis Opportunity

Example: Eliminate Maverick Spending

Spend analysis can reveal "maverick" spend and outliers. Maverick spend consists of non-contract spending. It might stem from forgotten initial contracts, spending with non-contracted vendors when a contract is available, or spending with too many suppliers and no contracts. There also may be types of freelance maverick spending in the organization. Outliers – also known as Purchase Price Variance (PPV) – are spend categories demonstrated to be above what should be expected.

Ways to Save: Opportunities to Reduce Logistics Spend

Reduce the number of carriers

The multiple carrier approach occurs when the transport manager has negotiated the best deal for each route but has not considered the larger overall picture. By reducing the number of carriers, the amount of work offered to the remaining carriers will increase, thus the carrier should be able to offer lower rates across all routes. It may be the case that on some routes the rate is not as good as was negotiated with another carrier, but overall the rates across all routes should be lower. In a case study by [the Institute for Supply Management \(ISM\)](#), a company was able to successfully cut inbound freight costs by 10 percent while reducing the list of preferred carriers by 39 percent.

Consider multi-stop truckload (MSTL) utilization

Multi-stop truckload (MSTL) is becoming increasingly popular for shipping less than truckload (LTL) thanks to more certain delivery time, shorter transit time, reduced damages and its cost savings potential. However, the complexity of MSTL can make it difficult for shippers to realize the benefits of multi-stop shipping. MSTL tenders may also impose extra travel distance and longer detention time for drivers, offsetting the potential cost savings for the shipper. An experienced third-party logistics can help you navigate the complexities of MSTL.

Success Story: MSTL cuts costs and improves operational efficiency

Evans Food Group was charged with identifying proactive ways to cut costs and improve efficiencies throughout its supply chain. Solution consultants at Zipline Logistics conducted an in-depth network evaluation. They concluded that moving specific customer orders to alternate production facilities would allow for an on-site order consolidation program. MSTL successfully reduced LTL utilization and lowered landed cost per pallet by 20 percent.

Identify freight classification errors

Commodities are grouped into one of 18 LTL freight classes established by the NMFC (National Motor Freight Classification), the standard for freight identification and classification. The NMFC does not set prices or specify rates.

Your shipment's freight class determines what the carrier will charge to transport it. The freight class of your shipment is determined by four major factors: density, stowability, handling requirements, and liability exposure. Noting the proper freight classification on your bill of lading will enable a carrier to offer you the best possible service and the most accurate rates.

The NMFTA offers a variety of [training programs](#) to provide NMFC users with the skills necessary to accurately locate commodity descriptions and determine the applicable class and packaging requirements for products. This process sounds easy, but it can be difficult for the untrained eye, especially as product classifications and packaging requirements continually change. It's no surprise, then, that misclassified freight is responsible for more than 50 percent of all freight claims, reports the ISM.

Take advantage of intermodal

America's freight railroads have spent more than \$635 billion since 1980 on maintenance, expansion, and technology, including record amounts in recent years, to create a freight rail network that is second to none. These modernization efforts have helped increase rail market share—analysts predict that [intermodal freight in North America](#) will grow at a rate of about 5.57 percent through 2021—but the growing number of intermodal shipments is largely in response to many current market conditions in the trucking industry, like unstable

fuel prices and infrastructure deficiencies. Intermodal is fast becoming the shipping mode of choice for many businesses thanks to the reliability, speed and cost effectiveness of intermodal.

Success Story: Intermodal helps shipper avoid trucking rate increase, save money

A Zipline Logistics' customer was experiencing large rate fluctuations across a 2,000-mile lane from Southern California to the Midwest. When rates officially jumped past \$4,000, the customer decided it was time to find a new solution. Zipline Logistics recommended they transfer a few shipments to rail. The customer was hesitant at first due to the nuanced and complex nature of the cold chain, but their concerns were quickly alleviated when our team explained the rate reductions they could expect. By using rail, the customer not only avoided the trucking rate increase but found additional savings of nearly \$600 per shipment without experiencing any service-level changes.

Outsource part of your supply chain operation

Eighty-five percent or more of businesses outsource some part of their supply chain operation or management. Some of the most common reasons for outsourcing logistics include:

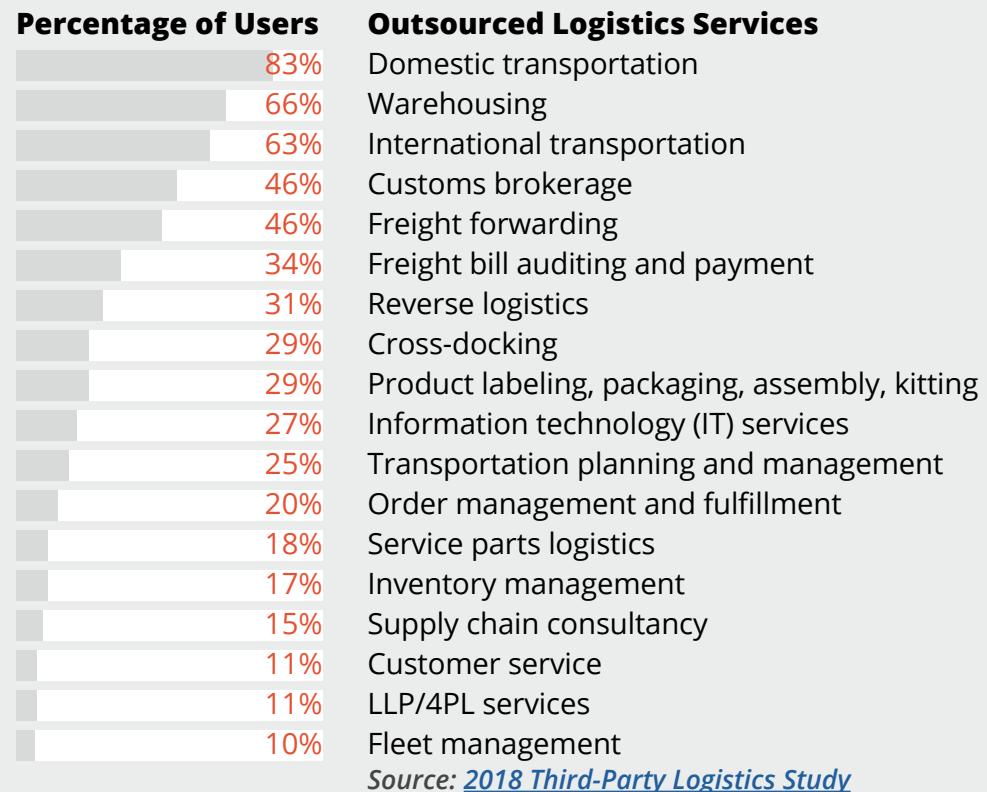
- The service being outsourced is not core to the business and a "distraction" for management

- Operations are rapidly expanding, and outsourcing provides an effective means of quickly accessing more space, technology, or other resources
- The business requires a degree of flexibility in resourcing and a more variable cost structure, either in resource numbers or type
- The business needs access to specialized skills, equipment, or technology and does not want to invest in those assets directly

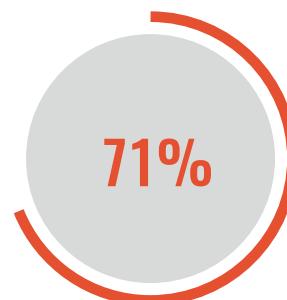
A successful outsourcing relationship is characterized by both parties getting what they want through a healthy and proactive partnership. As the customer, you get consistent

service at a cost within expectations (and the possibility of a lower cost overall), and your service provider makes the expected profit margins.

A 2017 report published by Armstrong & Associates, Inc. states that [90% of Fortune 500 companies use 3PLs](#) for logistics and supply chain functions. The report also details the type and number of 3PL services customers tend to use; they average nearly three services per 3PL relationship, often a combination of transportation management, warehouse management and/or value-added services. But there are many other outsourcing opportunities. The 2018 Third-Party Logistics Study found the percentage of users for nearly 20 outsourced logistics services:



The 2018 Third-Party Logistics Study also details that **71%** of those who use logistics services (shippers) said the use of 3PL services has contributed to overall logistics cost reductions, and **73%** said 3PLs offer new and innovative ways to improve logistics effectiveness. Of course, the key to getting the most out of your 3PL relationship is having the right partner.



the use of 3PL services has contributed to overall logistics cost reductions



3PLs offer new and innovative ways to improve logistics effectiveness

Tactical 3PL Partner

- Highly focused on cost
- Equates logistics with expenses
- Service in this category is viewed as a commodity
- Outsourcing of operating to gain better efficiency and accurate execution

Service 3PL Partner

- Focused more on getting the right solutions
- Cost is not considered to be a deciding factor
- The shipper is looking for expert advice and willing to pay for the right solution

Strategic 3PL Partner

- 3PL is treated as a key strategic resource to its customers
- Both parties invest in the relationship and share the returns on their investment
- 3PL partner is viewed as a crucial part of the business and competitive position of the outsourcer
- Outsourcer shares its long-term plans with 3PLs that manage the functioning of its supply chain
- Both parties make sure that there is alignment to business and operational goals

Source: [2018 Third-Party Logistics Study](https://www.zipline.com/resource/2018-third-party-logistics-study)

Zipline Logistics:

Your Consumer Goods Transportation Partner

If you're interested in cutting costs and achieving optimum transportation performance, Zipline Logistics can help. We can help you execute on spot shipments, manage your entire transportation network, optimize your operations, or provide a service offering in-between. Our team members are measured and compensated based on their ability to reach customer performance metrics, which means your business goals are our business goals.

Dedicated account teams, regionalized carrier capacity, cutting-edge shipper intelligence tools and the highest level of customer service—these are just a few of the reasons we have a client retention rate of 96% over the last five years. Get in touch with a Zipline Logistics representative to learn how we can help you ship smarter and save more.

**GET
STARTED
AND
REQUEST
YOUR
QUOTE
TODAY!**

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