How to beat the high cost of shipping

In our second look at the state of logistics, our authors offer advice on how to become a shipper of choice—and control the high cost of shipping—in an uncertain time.

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These days, when the discussion changes from how much a shipment is going to cost (more) to whether it can be moved at all (maybe), it's time to recognize that we are in uncharted territory. While the imbalance between shipper demand and shipping capacity won't last forever, most shippers don't believe they will see a remedy anytime soon; most expect that it may get worse before it gets better.

To make the most of a difficult situation, shippers will need to change their mindsets and separate their short-term and long-term decisions. In the short-term, the answer is to move away from a focus on the lowest total delivered cost to maximizing available capacity first, while making the perennial fight over costs with carriers a secondary consideration. Longer term, the answer is to design cost out of the system. This won't be easy, as almost all of the critical long-term changes are out of the control of the transportation manager, and require company-wide decisions and company-wide approaches from procurement to sales to operations.

In the short-term, then, the best thing a shipper can do is become the best customer a carrier or broker ever had: Give them a good reason to give you their scarce capacity. Becoming a shipper of choice is not easy, especially in a crowded market where every shipper might have the same idea and providers appear to have the upper hand, but the approach should yield benefits not only now when demand is high and capacity is in short supply, but also longer-term when price is again an issue, and you have proven to be a good partner to do business with. And as many of the short-term changes lower carrier costs, you will have an opportunity to share in the benefits later when the market reverts to the norm.

Short-term: Become a better customer

Many shippers are used to telling carriers how high to jump, and when to come down. Today? Not so much. Now, more than ever, shippers must become preferred customers of their carriers, a challenge that can be done in numerous ways.

First and foremost, many companies have turned stretching out payments to carriers into an art form, but in today's environment, slow pay is a bad idea. The reality is that with low interest rates, money is cheap for most shippers, while for carriers, cash flow is more important than price level. The secret is to pay on time, or even pay early, and then ask for more capacity. Another easy change is to get the paperwork right the first time and minimize discrepancies.

Moving beyond improved payment terms, make it easy for carriers to get in and out of your facilities. Industry capacity is increased by decreasing the non-driving time for drivers. Most drivers are paid by the mile, so sitting means no pay and that means they have to ask for more per mile from the carrier. Getting them in and out quickly, decreasing the time required to load or unload trucks, or to hook/drop a trailer, gets the driver and truck on the road faster and improves the carrier's profitability. Simply said, when your business is more profitable than someone else's, you get capacity. This is either achieved through increased flexibility and more available hours, or by better planning and productivity at the dock.

You can demonstrate flexibility and improve turn times by increasing the available hours for deliveries or pickups. Shipping and/or receiving on weekends generates a 40% productivity gain for the trucking company (seven days versus five days). Scheduling can help too, but so can flexibility around arriving early or late to get the driver back on the road quickly. Another example is to help facilitate providing inbound carriers with outbound loads. Nothing beats zero empty miles between loads, and it's as easy as asking the inbound carriers whether they are looking for outbound loads. Also consider adding driver lounges, bathrooms and showers to improve the driver experience while at your facility.

Other actions you might consider include asking the trucklines and drivers that serve you what changes they would like to see. In short, make your facility one where every driver and every trucking company wants to go. The easier you are to do business with, the more likely you are to lock in capacity in a dynamic market.

Long-term: Focus on efficiency

The idea that shipments get delivered when and where the rest of the company decides just doesn't work in today's world. Instead, you need to make overall changes that will drive efficiency. However, most of the following changes can't be made by your transportation team alone. They are broad, cross functions and departments and require input from leadership. For that reason, transportation has to have a seat at the table; it needs to offer ideas and quantifiable benefits. While supply chain has been making that argument for years—and indeed, at some organizations, supply chain does have a seat at the table—supply challenges during the pandemic has finally caught the attention of the C-Suite. Now is the time to make that argument more forcefully than in the past.

Following are some examples of change that can make a difference.

Change the size and frequency of your shipments. There's no question that just-in-time strategies like smaller but more frequent deliveries minimized inventories and drove cash to the bottom line. However, today's world requires new math and new strategies: With higher transport costs and the cost of a stock-out in both lost sales and the potential damage to a customer relationship, it might be time to look at larger and less frequent deliveries. The gains can be massive. For example, receiving a 25,000 lbs. truckload shipment every two weeks versus a 37,500 lbs. shipment every three weeks generates a 50% increase in trailer utilization for essentially the same (full truckload) cost. Put simply, it results in a 50% transport cost reduction, has lower order processing costs and requires fewer trucks.

However, to realize this dramatic result, transportation will have to work with the sales team and purchasing to implement these changes with customers and vendors. It will also require changes to order quantities and re-order points to ensure adequate supply and inventory levels. This modification applies to all orders, from small parcel to truckload shipments; whatever the mode, larger shipments can potentially deliver big savings.

It's important to recognize that these benefits aren't free. The benefits may have to be shared with partners before they will agree to do business in larger quantities, but there will be sufficient money to go around. Additionally, consider offering some of the benefits to your carriers to ensure guaranteed capacity.

Consider a trailer pool. Drop trailers have a tremendous impact on truck and driver productivity. In the past, trailer pools only worked for the largest carriers and shippers. That's no longer true. Currently, some medium-sized shippers are setting up their own pools and hiring carriers on a power-only basis. One strategy: Ask your carriers to contribute to a multi-carrier pool. In fact, some brokers are now assisting in pool trailer capacity and power only solutions. In addition to the productivity gain, this approach also entices carriers to keep coming to your facility (they need the trailer) and opens up the pool of potential carriers by providing a way for smaller carriers to serve drop trailer shippers. As with other strategies, this isn't as simple as it sounds, because there are many set-up and fleet management issues that have to be addressed.

Consider more efficient modes and consolidation. While most shippers understand the trade-offs between LTL and truckload and between truckload and intermodal, consolidation is an opportunity that you may not have considered. An internal consolidation can be enabled by using multi-stop truckloads, larger LTL shipments or small parcel zone-skipping. While many think of consolidation for LTL, it may also be a good way to fill out truckload shipments—such as adding a 7,500 lbs. LTL shipment to a 25,000 lbs. truckload and dropping the smaller load along the way. Because the trailer load shipment has already paid for the truck, the cost of the LTL is limited to the drop fee and out-of-route miles. Many carriers and 3PLs already offer these services and consolidate across multiple shippers. Nonetheless, while consolidation has been around for years, it is still a niche business.

As with LTL and truckload shipments, the concept holds true for small package shipments: You can minimize small shipments moving long distances. For example, zone skipping facilitates consolidation. Instead of shipping multiple small shipments long distances by small parcel ground, ship large LTL or full truckload shipments (that contain a lot of small parcel shipments) to a parcel carriers' terminals. The parcel carrier can then do final mile delivery as a Zone 2 shipment.

Add facilities to support full truckloads. In this strategy, a shipper builds a "pivot point" network of facilities, and ships every long-haul shipment as a full trailer, no matter what the customers' order sizes. If a customer orders 20,000 lbs. and 35,000 lbs. can fit in a trailer, ship 35,000 lbs. with a drop at the customer and final delivery at an in-market fulfilment facility. When inventory builds up at the fulfilment facility, you can use it for local fulfillment. This process provides the additional opportunity to offer higher-priced options for faster delivery or smaller order sizes to customers in markets where a pivot point facility is located. Be sure to design the network such that all long-haul trucks run at maximum capacity. If you are utilizing your own facilities within an e-commerce network, consider additional fulfilment centers that utilize full truckload or intermodal inbound and regional parcel outbound (where volumes and inventory turns support the change). Done right, the lower long-haul transport costs will offset the facility and inventory costs, and you will be left with better ways to serve the customer while needing less long-haul truck capacity.

Redesign your packaging for efficient shipping. In the past, packaging was often designed without input from the transportation or logistics teams that handle and ship the product. In many cases, packaging is a function of marketing, with a focus on how the package looks on the shelf. That is changing, with more attention paid to packaging as a result of requirements from Amazon, as one example, and dimensional rating from parcel carriers. As a result, some shippers are considering the trade-off when packaging is redesigned to increase the density of the freight and at the same time decrease damage rates—two things that lead to more efficient use of space and higher customer satisfaction. Additionally, shippers may benefit by considering packaging that allows for the stacking of product without decked trailers to maximize trailer utilization. Finally, it's important to recognize that these transportation and logistics considerations generally can be consistent with design and marketing priorities.

No silver bullet

None of these strategies is a silver bullet by itself, but in combination, they can contribute to increased capacity now and lower cost in the long-term. A number of our suggestions can be implemented with simple process changes, but several of the biggest opportunities may be complex to implement. Others require supporting systems and processes or customer and supplier input. Some will require the entire company to do business differently. And some will require investments.

Each shipper must assess which options provide the most value for their company, and how much cross-departmental or customer/vendor coordination is needed. However, the potential benefits in the short-term and long-run are considerable, and there has never been a more urgent time to enact change.

Our advice: Start with those strategies that get you capacity today, and then initiate a process to capture the longer-term benefits. The best time to do this, as always, is when you have the least amount of time to do it—and that's now.