TRANSPORTATION ABCS

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Incorporate the Inbound to Optimize the Outbound

The trend of shifting inbound from the procurement department to transportation managers in order to blend inbound and outbound into your contract can inherently create savings. But we cannot just throw Inbound into the mix to realize these savings — we need to be strategic with dock capabilities, staff needs, and operational efficiencies. Savings is but one benefit of blending the two shipping methods. While incorporating inbound freight into our outbound network can present challenges, the shift does not need to create roadblocks.

So why aren't we doing this more often? Controlling inbound freight can be a difficult process. We see procurement teams battling transportation managers. We see agreements between shippers and recipients impacted when aggregated revenues shift. When we have two teams charged with containing transportation cost, any net increase in price could result in a decrease in workforce.

When evaluating corporate non-product costs, companies fail to recognize the importance of inbound freight. Outbound takes precedence as we tend to have tunnel vision to the end consumer. We aren't always as focused on how we got the product to our store or plant as we are how efficiently and effectively we got it off the shelf or out of the online cart. Shipping isn't free. And paying too much on inbound freight has a direct relationship with outbound fees.

But we got the inbound shipments to us, and didn't have problems, so why waste time thinking about it. Isn't that the vendors' problem to control cost and guarantee delivery? Shouldn't my procurement team be creating business plans and establishing metrics for our executives as the face of inbound freight management?

Ideally, yes. But what's simple in theory can be excruciating in execution. A large retailer could have over 1,000 vendors shipping merchandise to its locations, which means thousands of account numbers. Just gathering data on all the inbound shipments — and being able to benchmark if cost is market-competitive — is complex. Because what determines competitive?

Best-In-Class pricing is not one size fits all — demand and economies vary between regions. Distribution centers in Los Angeles, Nashville, and Baltimore may not be able to, or need to, incorporate inbound freight into the facility. Especially if the carrier contract is at the nine digit level versus parent account or if the centers house different product lines. If one facility ships shoes, while another distributes golf clubs, competitive pricing is relative to the fees being assessed.

Competitive pricing can become irrelevant if we can't get the products to the facilities. Equipment and dock demands need to be reviewed. If the inbound arrives on skids, do we have sufficient dock labor to receive the shipments — and do we have sufficient space on the dock? If pick and delivery occur from the same facility, do our trucks have adequate space to handle the inbound and outbound freight? Does the outbound require a special operational buffer (dry ice, oils, etc.) that, if spilled, can impact the speed to facility of the inbound freight should the fleet need to be cleaned?

Clean fleet and competitive contracts only exist if our procurement team communicates with our transportation managers. When business goals don't align, we see teams working against each other. Transportation managers not only focus on current rates but also forecast for growth. They may be incented to create savings over goal, whereas our procurement team receives no incentive beyond goal. We are working for individual and team recognition, but the pieces aren't always stronger than the whole (the company).

We need leverage to negotiate. We lose leverage if we don't know what we're paying for the freight because our vendor doesn't provide visibility to inbound costs. Vendors may see inbound shipments as their freight and subsequently do not feel outbound managers need access to implement controls. If we shift inbound freight from an outbound collect cost to a cost now incurred by the recipient, we risk the vendor facing a net rate increase if the contract is set up based on revenue tiers. While pricing the segment of inbound shipments specific to our company, the overall impact to the vendor agreement may be compromised if our inbound freight isn't the driving revenue in the tiers.

Why shift the freight? We can imagine numerous challenges — what are the benefits? Visibility into the supply chain. Predictability in the inventory. Opportunity in cost containment. We can't be lean if we don't trim the fat between inbound and outbound freight. ■

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