The Rise of the Freight Manager

Why you need to get serious about freight management.

Freight – it's important

Freight is a crucial part of the supply chain. For any business involved in the sale of physical goods, if freight is not handled correctly the business is in jeopardy.

Depending upon the market and location, freight can be a simple task or it can be a complex one. Even a task that initially seems simple may contain hidden difficulties and traps that can derail the best laid plans.

Freight management involves the co-ordination of external or third party suppliers. A third party supplier is involved if neither the sender nor the receiver are directly carrying the goods. It is fair to say that unless it is you or your customer's own staff doing the deliveries, you are using a third party supplier.

The level of complexity in your supply chain and the competence of your suppliers will largely decide the nature of your involvement with them and the amount of resources a sender will have to set aside for freight management. It is quite easy to take letters to the post office but several orders of magnitude more complex to move frozen goods from factory to the supermarket display case.

Complexities in distribution can include geographic spread of customers, unusual packaging or item requirements, and a variety of customer types - for example home deliveries, retail deliveries and overseas shipment.

In this chapter we'll cover the following:

- Why do I need a freight manager?
- The professional freight manager.
- Outsourcing freight management.
- A professional freight review.
- Do's and don'ts of a professional freight review.
- Results of the freight review.

Why do I need a freight manager?

For many businesses, freight management is a job thrown in as an additional role to an employee or manager in areas as diverse as warehouse, purchasing, finance, customer service, and even marketing and sales. I refer to these people as "part time freight managers". Oftentimes they're not rewarded or judged on the outcome and as long as the freight bill sits around the right figure in the budget and no one is yelling too much about poor service they will be free from scrutiny.

On a sporadic basis, usually prompted by anecdotal suggestions that the freight bill is too high or that service is poor, the part time freight manager will be instructed to conduct a review. This might also be known as "testing the market", "going to market", "a tender" or "request for proposals".

The first step for the part time freight manager is deciding which freight and transport companies to talk to. This is a daunting task. A google search for "transport companies Australia" returned over 21 million results in 0.3 seconds. Likely options will include the stack of business cards and old quotes in the filing cabinet, the trucks driving around the area or a quick customer poll to see who the competition is using.

The part time freight manager will then spend considerable time meeting with 3, 4 or 5 transport company representatives. Depending on the potential freight spend, the initial contact may be with internal sales, a local area representative or a major account business development manager. Each representative has the same intent - convince the part time freight manager that they are the best and only solution and that talking to anyone else is just wasting time, get the data, trial close ("if I can, will you?") and get back to the office to prepare a quote.

Once they have convinced the part time freight manager that they understand all the needs of the business and are the best placed company to take care of all delivery needs, they will take away some sort of historical data - usually freight invoices, sales data, consignment notes, etc. This information may or may not contain costing information.

Depending on the level of head office control and oversight at the transport company, the freight representatives will come back in 2 to 3 weeks with a terrific colour presentation describing in great deal all their abilities, their network, their commitment to customer service and their world leading IT systems. Mostly though, the presentation will focus on price. Rates, cubic information, zone listings and surcharges. There will also be a table that will indicate how

much money the customer would save if the new transport company were to undertake the work.

The part time freight manager might then end up with 3 or 4 different quotes. These quotes are, by design, difficult to compare. Different rating structures, different cities falling into different zones and variable costing structures ensure that the quotes do not line up and allow the part time freight manager to establish, without a doubt, which was the cheapest.

There are software packages and online solutions that can help with this but selecting a system is oftentimes as complex as the freight question and can result in increased costs through license fees, dedicated stationary contracts and helpdesk support.

Typically the freight task sits in the too hard basket for a couple of weeks. The part time freight manager needs to get on with his full time role of warehouse, finance or sales. It's unclear which is the best option and, if lucky, the incumbent transport company has figured out they are in trouble and will offer a rates freeze or reduction and promise to put the account on high alert and that everyone in the company will be reminded how important it is not to stuff up their freight.

Eventually either no decision is made or a replacement is selected. But with no real KPIs and no real plan, change is unlikely, history is inevitably repeated and in 6 or 12 months we're back where we started. It's when a decision to change is reached that the real fun begins.

Suddenly the part time freight manager is besieged by colleagues from every department:

Sales - how will this change affect my customers? Has the new company committed to the same service standards as they old one?

Warehouse - what time will pickups be? Do we need to change despatch systems? How about the pallet float?

Finance - How will this affect my accruals? Will our invoices be in the same format? What payment terms have we committed to?

Customer service - Do we need a new contact? Can you organise training on the track and trace system? Do we have a hotline?

Health and Safety - The new company needs to sign off on site regulations. Drivers need to be inducted. Is the new company up to date with Chain of Responsibility laws?

The part time manager quickly goes from being the uncle no one likes at the wedding to the most popular guy at the picnic.

Depending on the industry and other factors, the freight bill can account for between 2% and 10% of revenue. This can be an annual operational expenditure of anything from $50,000 per year to millions of dollars. In an era where a new $2000 photocopier requires capital expenditure approval, should this big a decision be left up to a part time freight manager, no matter how well credentialed?

The professional freight manager

The last few decades have given rise to a new role within business – the professional freight manager. Often reporting to a senior management person responsible for logistics and supply chain, the freight manager's job is to ensure that, when all factors have been taken into account, the company's goods are where they should be, when they should be, at the best price for service.

Freight managers can either be a full time resource or can be outsourced. Outsourced freight managers are now sometimes referred to as "4PL" which stands for "4th party logistics".

The professional freight manager can come from a variety of backgrounds but most often will have extensive logistics and supply chain experience. As with most management roles the broader the experience the better.

A good freight manager is fair and balanced and has a good understanding of real KPI's. Freight KPI's can range from the basics such as cost per kilogram, consignments by destination and DIFOT (Delivery In Full On Time) through to complex ones such as a freight as a percentage of sales and complaints vs DIFOT measurement.

A freight manager also needs to understand that transport companies are not the enemy. Freight companies need to be worked with to deliver the best outcome. A good start to this is to only ask transport companies to carry freight their operation is suited to. Asking a bulk pallet carrier to manage home delivery satchels is never going to end up with a good result.

Regardless of whether the role is in house or outsourced, when engaging a freight manager, they need to be given access to all facets of the business. On a daily basis the choice of transport company affects most departments. Areas as diverse as these are all intrinsically linked to freight:

- Customer service – perhaps hold and wait times for bookings and track and trace.

- Accounts – multiple carrier invoices or one? Does the business require special information? Hard copy invoices or excel files?
- Sales – lead times, delivery ability to major customers.
- Warehouses – pick up times, presentation of freight (pallets, loose) and despatch technology requirements.

Outsourcing freight management

An increasingly popular option is to outsource freight management completely. Although you retain control over costs, KPIs and day to day freight decisions, all the heavy lifting – invoice reconciliation, customer service, IT – is handled by someone else.

There are two distinct financial models for engaging a freight manager:

- Fee for service. This is either a flat fee or "user pays" agreement. A flat fee would normally encompass a long term agreement whilst a user pays a charge per consignment note, a percentage of the freight bill or a cost for each facet of freight management – e.g. customer service calls made, invoices vetted and consultant charges.
- The broker model. This is more popular. Here the freight manager applies a margin to the rates they buy at and sell to you at your agreed rates. Due to the competitive nature of the market broker sell rates should be the same or less than what your company could gain directly from the transport companies with the added benefit that the freight manager is agreeing to do all the work for you.

Either way, when working with an external freight manager, your responsibility for managing your freight should end when the freight is collected.

Outsourcing the freight review to a 4th party provider has numerous benefits. As you can see this task is more complex than it appears. An external freight manager will have access to a lot of the information the internal freight manager is going to try and get. What are the options, who are the competitors using and how is this whole thing going to work if we do change?

Using an external freight manager also has the advantage of keeping the negotiations and discussions at arm's length from your business, your day to day operation as well your reputation. The freight manager can negotiate as hard as they like and talk to whomever they see fit while your business continues on as normal. The time you would spend meeting with carriers, comparing quotes and vetting data is taken care of.

Some external freight managers will also present a range of options and allow you to cherry pick the freight companies you want. This allows you to take the best of each service and merge them into a distribution solution but do all this through a single relationship.

If you have chosen to outsource your ongoing freight management you can negotiate for them to undertake regular full freight reviews on your behalf without tying up your internal resources.

A professional freight review

The freight manager's role is then to conduct a professional, auditable freight review. Starting with the incumbent carriers, analyse KPI data and also investigate anecdotal feedback. In many cases the anecdotal feedback and the KPI's don't match. The transport company may have a high level of service yet satisfaction is low, or they may be a premium priced carrier and the perception of their drivers doesn't match that image. How are the current carriers performing? Are you getting value for money? Are the agreed standards being met?

Copies of current rate cards should then be obtained and compared to the actual freight invoices. Ideally the two should completely match up, but, especially if there has been a long term relationship, there is the chance that certain charges have been included that may not have been there previously. There should be no problem acquiring this data. They are, after all, your rates. The annual rate increase cycle is not always linear and so called "cost corrections" can lead to blow outs in certain lanes.

Any discrepancies in the billing should be sorted out before a further review commences. If there are credits due and the carrier is being replaced those credits may be more difficult to obtain whereas it is often preferable to allow a carrier to trade through the credits whilst they are bidding to retain your business.

Before going to market decide what outcomes you are looking for. These could be improved delivery performance, reduced freight costs or reduced time spent dealing with freight issues within the business. Most often your business will be aiming for the grand slam – we want the best performance at the cheapest price combined with the best overall service package. And you want an IT solution.

Deciding who to approach is a challenging task. If you are outsourcing your freight management, the freight manager will have access to potentially hundreds of service providers and will be able to tailor a solution to your needs and your desired outcomes. With in-house

freight management possible transport company leads will come from your own previous experience, the carriers chosen by your competitors or web searching. If web searching, try to be as specific as possible with your queries – "express parcel deliveries to Tasmania" will return better information than "parcel freight companies".

Do's and don'ts of a professional freight review

Do:

- Be upfront with the providers and let them know there are other possible options.
- Set and control strict timelines. This is your review on your schedule.
- Provide as much possible data as possible.
- Provide your current freight costs, but not the rate cards. This can be controversial. The fear is that by providing the freight costs, the potential transport companies will only try and beat your current costs by a little. This is one of the reasons you are talking to more than one freight company. The key and overwhelming advantage to providing your freight costs upfront is that you quickly allow the transport companies to establish if they can be competitive. If your rates are too cheap or don't match the service a company can provide they will back out immediately and won't waste your time. This allows you to either bring in another potential option or concentrate on the remaining ones.
- Ask for referees. You have to speak to other people who have been in a similar situation.
- Have someone double check the carriers' maths. All proposals should have both a representation of your data and the rate cards that lead to that.

Don't:

- "Dutch auction". This is where you play one company's proposal off against another and then go back and forth trying to whittle away a few cents per kilogram here and there. This process can take ages and causes significant damage to your company's reputation.
- Give inaccurate feedback. If the quote is no good, it's no good.
- Accept any offer that ties you directly to a transport company's IT solution. This could either be externally forcing everyone to use the carrier websites or internally hardwiring your transport decision to transport company defined parameters. Both these options deny you flexibility should there be a need to change.
- Waste time with big meetings and depot inspections. It is more important that the service provider has the ability to nail your required KPIs than that they just spent $200 million on a new sortation facility.

Results from the professional freight review

There are essentially three possible outcomes from a professional freight review:

1) Change nothing. You have concluded that everything is exactly how you want it.
2) Retain the incumbent providers but at different rates and/or with altered service commitments.
3) Change.

Regardless of the decision reached the next steps are all the same.

First you need to get everything confirmed and in writing. Service levels, reporting formats, KPI commitment dates and rates all need to be locked away.

If you are replacing incumbent carriers, provide them with adequate notice. If you are a significant client there will be repercussions within their network and they need a bit of time to prepare. A huge advantage of exiting gracefully and professionally is that if things go wrong with the new supplier there should be less resistance in moving back. They may not welcome you with open arms but their conduct will at least be professional and courteous.

On some occasions I have seen a trial or slow changeover take place. The theory is that it gives the new company time to get used to you as a customer and that if things go wrong you can still pull the pin and put all your freight back with the incumbent. It's rarely this easy. Suddenly your staff are handling multiple pickups, IT systems and carrier customer service numbers. Confusion can result as people will question which of the transport options was selected.

Changing transport companies is best done quickly, cleanly and clinically. Whether it's one week, two weeks or a month, let both the incumbent and the new carrier know what date everything will switch over. At worst you'll only be dealing with the old carrier for a few days while deliveries in transit are made and a couple of weeks for the invoicing to clean up.

Finally, make sure your change of carrier is broadcast to all your staff, customers and, if relevant, your suppliers. Despite everyone's best efforts and intentions, dealing with a new freight company is going to require some adjustment. Better for the freight manager if that adjustment happens before commencement.

Summary

Freight is a serious business issue.

Ignored and mishandled, freight can undo all the great decisions you make.

Invest people and time in the process and the benefits to your business are substantial.

Whether you import the talent or outsource the role, ensure a professional freight manager is working to deliver the results you need. This could be your competitive edge.

Good luck.

Marshall Hughes

About Marshall Hughes:

I enjoy the challenge of making things happen.

I worked my way over 20 years from sales and customer service, to be Chief Operating Officer of Myfreight, one of Australia's leading freight management companies.

I was a leader amongst my employees, often the first person they came to when needing help. Rather than giving the answer right away, I would ask them how they might fix it. And, if their solution was one that might work, we would give it a go.

My colleagues call me honest, creative, organised and balanced. I am a lateral thinker who has a knack for finding solutions to problems others don't tend to think of.

I was integral in the creation and development of Myfreight, versions 1 and 2, a multi-award winning 3rd party freight management platform. With the massive shift to imports as our manufacturing economy changes, companies need to keep a constant eye on stock levels. Projects I am involved in are critical for many companies, and I am proud to be a part of them being developed and delivered on time.

Today, I am a young man with 20 years business experience, customer service and managerial skills aplenty. Tomorrow I see myself leading world-changing projects, and teams of people helping me make stronger economies and companies.

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