

# Gain Control Over Inbound Shipments With a Prepaid-to-Collect Conversion



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# Executive Summary

America's 114 million households, 7.6 million business establishments and 88,000 government units fuel a massive economy that revolves around the movement of freight<sup>1</sup>. But, the movement of goods from point A to point B often comes with a hefty price tag.

Although the Council of Supply Chain Management Professionals indicated logistics costs in the United States dropped slightly from a 7-year high of 10.1% of Gross Domestic Product (GDP) in 2007 to 9.4% in 2008, the perfect storm of volatile fuel costs, rising inventories from a slow economy and the effects of international outsourcing continue to keep that number at an exceptionally high level.

Increased costs to carriers eventually manifest as increased prices paid for freight transportation. Between 2003 and 2006, prices increased 13% for trucking, 25% for rail transport, 11% for scheduled air freight, and 11% for water transportation<sup>2</sup>. An increase in transportation costs not only affects the cost of goods across all economic segments, but also impacts the demand for these goods in open markets.

Many companies remain unaware of just how much their inbound freight costs them because these charges are "buried" in the prices they pay for the goods. In fact, freight allocations average between 4 to 7% of overall product cost.

Because suppliers are typically responsible for getting products to a customer's distribution center (DC), buyers don't possess the same kinds of controls over their inbound shipments as they do for outbound loads. Many companies remain unaware of just how much their inbound freight costs them because these charges are "buried" in the prices they pay for the goods. In fact, freight allocations average between 4 to 7% of overall product cost. That means it costs at least \$40 to ship an item valued at \$1,000. But, what if you could save up to 25% of that cost? Multiplied by millions, even thousands, of products, the potential cost savings is substantial.

As important as reducing costs, buyers are finding that gaining more control and visibility over inbound shipments is important because their brand reputation hinges on timely availability of quality products for their end users.

Manhattan Associates, a global supply chain optimization provider, has collaborated with transportation customers and suppliers to develop solutions and industry best practices targeted at giving today's companies more control over and visibility into their inbound shipments by converting their freight from prepaid to collect—ultimately reducing transportation costs along the way.

<sup>1</sup> FHWA, Freight Facts and Figures, 2008.

<sup>2</sup> FHWA, The Economic Costs of Freight Transportation, accessed at [http://ops.fhwa.dot.gov/freight/freight\\_analysis/freight\\_story/costs.htm](http://ops.fhwa.dot.gov/freight/freight_analysis/freight_story/costs.htm)

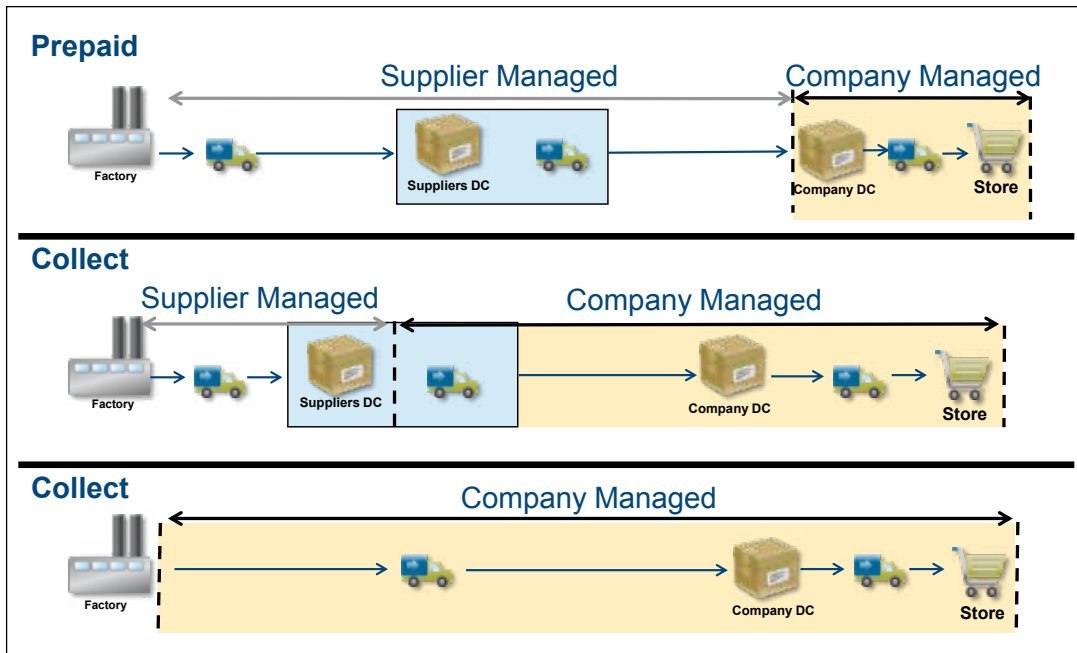
# Prepaid to Collect—What's the Difference?

With prepaid shipments, the supplier or shipper owns the responsibility for the freight payment and is ultimately charged with delivering the goods from the factory to a supplier-managed DC and on to the customer's DC. In the collect world, you, the buyer, hold the freight responsibility and manage shipments to either the supplier's DC or direct from the factory to your warehouse facility.

When shipping choices are left up to suppliers, companies have little to no control over inbound flow and freight charges related to goods and materials, which can eventually lead to issues downstream such as inventory shortages, late deliveries, dissatisfied customers and higher costs for your company. Most importantly, if a product is late or you run out of inventory, your customers won't blame your suppliers—they'll blame you.

Suppliers often bring in extra profits for themselves by building and bundling excess freight and handling charges into their final invoices—making the true costs harder to detect and control. And, when lower freight rates and discounts are negotiated, the suppliers, which pay the freight bills, become the primary beneficiaries. Very rarely do they pass the savings on to you.

Shipping freight prepaid, although a universal business practice, is often said to encourage poor performance and even possible abuse within the system. Poor carrier performance, in the form of late deliveries and damaged freight, falls squarely on the customer. As the supplier reaps the benefit of prepaid freight on the front end, the customer suffers through unnecessary costs and penalties on the back end.



# Know When to Say When

Most companies only evaluate their carrier or logistics networks every year or two, if at all. As mentioned previously, there are a number of organizations that don't know their actual transportation costs.

It is imperative that you compare your shipping rates and carrier service levels regularly. An analysis of transportation as part of cost of goods indicates where there are opportunities for improvement in efficiency, cost savings and service levels for inbound freight.

Whether you're regularly reviewing your transportation costs or not, the following red flags may indicate your company is ready for a prepaid-to-collect conversion:



## A rise in transportation related charges

### Why Act Now?

In today's economy, everyone is looking at ways to cut costs. And, one way, obviously, is through transportation. Effectively your suppliers are making money off of the freight. An analysis of the difference between what they pay to their carriers versus what is billed back to you can help determine which supplier lanes make sense to convert in order to drive down costs. For example, if there is a final invoice for \$3,000, of that, maybe \$1,000 is related to transportation. If you can go to the open market yourself and get that for \$800, you've lowered the costs overall for your company.



## Consistently late deliveries or damaged freight

### Why Act Now?

Service issues, whether they involve transporting freight late, showing up at the loading dock unexpectedly, or consistently delivering damaged goods, are disruptive to operations and affect customer satisfaction in the end—none of which companies can afford in today's marketplace. By converting from prepaid to collect, you have the opportunity to better manage inbound freight and maintain a current carrier base with high-performance standards. With a strong core carrier program, lead time from the supplier to the shipper's DC can be reduced, and product can actually be picked up and shipped the day it's ready. This facilitates more on-time deliveries and reduces days of inventory supply. You can establish your own contract terms and then leverage your carrier

base to improve service for the inbound product coming into your DC. It could be that you require "x" percent of the shipment damage free. Maybe you need to drop so many trailers in your lot so they're available for loading/unloading at your convenience.



## Increases in less-than-truckload (LTL) shipments

### Why Act Now?

Load consolidation is another area where companies can realize significant transportation cost reductions. Companies with collect freight can better manage their loads and look for opportunities to combine LTL shipments with other freight to build up multistop truckloads. Cross-supply or load consolidation drives cost efficiencies. Instead of paying LTL as three separate shipments, you can combine them in multistop truckloads and improve service and drive down costs. For example, a grocer purchases from three different vendors and the respective shipments amount to 10,000 pounds each—not enough to fill a full truckload. Those three 10,000-pound shipments delivered independently are more expensive than one truck making three stops at those vendors and transporting it as a multistop shipment with 30,000 pounds. Not only can that grocer take advantage of better freight rates, but by reducing the number of carriers delivering to the warehouse, it ultimately translates into the need for less labor to unload trucks.



## You're managing only a small percent of your inbound freight

### Why Act Now?

The most recent data from the Department of Transportation's Bureau of Transportation Statistics shows freight demand in the U.S. hit a near seven-year low in March 2009<sup>3</sup>. Now, with extra capacity, carriers are willing to negotiate to put freight on trucks. A soft-demand environment combined with increasing pressures to perform more efficiently means there is no better time for companies to re-evaluate key critical logistical components such as inbound freight. If you're managing only a small percentage of inbound freight now, then a golden opportunity exists to convert more vendors from prepaid to collect for the future.

<sup>3</sup> Hannon, Dave, "Freight Demand Dive May have Hit Bottom in First Quarter, Purchasing.com, May 14, 2009.

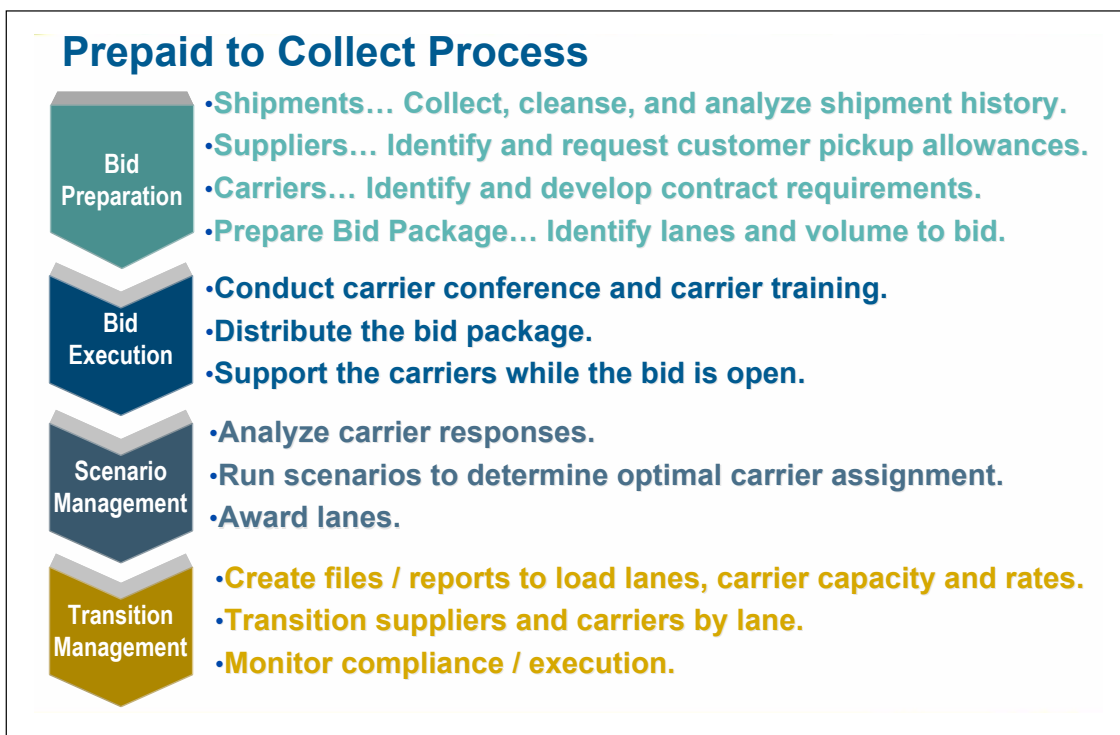
# Automation Puts Conversion in the Fast Lane

Selecting the right carriers can make a significant difference in profitability and customer satisfaction, not to mention your peace of mind. But the best carrier for each case is not always the low-cost carrier. How can you sort out which combination of carriers will best meet your complex transportation requirements?

Without automated support, evaluating and selecting carriers is a time- and resource-intensive process. The

most powerful technology tools not only have the ability to assist you in going out to market and procuring the carriers needed for the converted freight, but they also have the features to intelligently plan and execute those converted shipments.

The following table depicts the activities involved in a prepaid-to-collect conversion as well as ones you should ensure any technology you select can handle:



# Leading U.S. Grocer Rings Up Savings with Prepaid-to-Collect Strategy

In fall 2008, a \$15-billion grocery retailer went through a prepaid-to-collect conversion. The retailer evaluated its at-the-time \$20 million transportation spend across 98 lanes with the goals of converting from prepaid to collect and reducing the number of carriers. As a result, the company realized the following results:

- By automating the process, the retailer completed the bidding in three months (If conducted manually, then it would have taken 5-6 months)
- Of the 64 new transportation providers invited to bid, 30 lanes were successfully awarded; and
- To date, the grocer has secured \$3.6 million in savings.

This grocery retailer, like many other companies, understands it must mitigate the forces driving transportation costs now to ensure future success. Although inbound shipments may have been taken for granted in the past, you should not miss this favorable opportunity to determine freight terms and shipping arrangements that are best for your company. Converting more of your inbound freight from prepaid to collect gives you more control, visibility, cost efficiencies and reliability that you'll need for the future.

Manhattan Associates® continues to deliver on its 19-year heritage of providing global supply chain excellence to more than 1,200 customers worldwide that consider supply chain optimization core to their strategic market leadership. The company's supply chain innovations include: Manhattan SCOPE®, a portfolio of software solutions and technology that leverages a Supply Chain Process Platform to help organizations optimize their supply chains from planning through execution; Manhattan ILS™, a portfolio of distribution management and transportation management solutions built on Microsoft® .NET technology; and Manhattan Carrier™, a suite of supply chain solutions specifically addressing the needs of the motor carrier industry. For more information, please visit [www.manh.com](http://www.manh.com).



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