Does Prepaid-To-Collect Conversion Make Sense?

Guidelines for making the right freight payment decisions for your business

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 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.

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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.

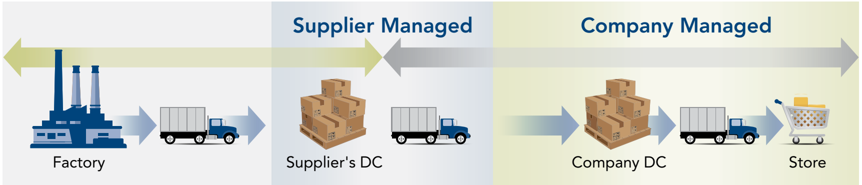
It is imperative that you compare your shipping rates and carrier service levels regularly. An analysis of transportation as part of cost of goods indicates where there are opportunities for improvement in efficiency, cost savings and service levels for inbound freight.

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.

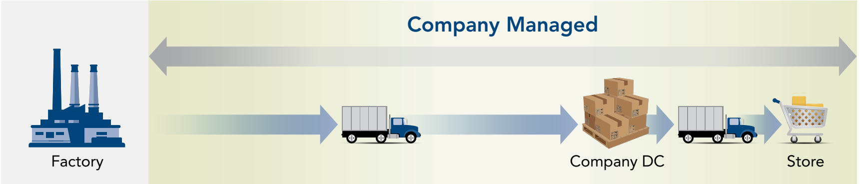
Shipping freight prepaid, although a universal business practice, is often said to encourage poor performance and even possible abuse within the system. Poor carrier performance, in the form of late deliveries and damaged freight, falls squarely on the customer. As the supplier reaps the benefit of prepaid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

Prepaid

Collect



Collect



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.

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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

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

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.

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.

Increases in less-than-truckload (LTL) shipments

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.

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:

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Prepaid-to-Collect Process

Bid Preparation

- Shipments – Collect, cleanse, and analyze shipment history
- Suppliers – Identify and request customer pickup allowances
- Carriers – Identify and develop contract requirements
- Prepare Bid Package – Identify lanes and volume to bid

Bid Execution

- Conduct carrier conference and carrier training
- Distribute the bid package
- Support the carriers while the bid is open

Scenario Management

- Analyze carrier responses
- Run scenarios to determine optimal carrier assignment
- Award lanes

Transition Management

- Create files / reports to load lanes, carrier capacity and rates
- Transition suppliers and carriers by lane
- Monitor compliance / execution

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

A $15-billion grocery retailer recently 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.

For more information about how Manhattan's Transportation Management Solutions can help you gain greater control, visibility and cost efficiencies, contact us at info@manh.com or +1 (877) 596-9208.

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