3 Inbound Shipping Challenges That Impact the Entire Supply Chain

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If you're looking to save costs on shipping, take a look at inbound shipping. Depending on the industry and size of the company, a business can spend more than 40 percent of its annual freight budget on inbound shipping, according to the Aberdeen Group [1], a research firm in Boston. A more efficient inbound freight program can minimize delays, save money, and even reduce confusion.

Seventy-five percent of companies surveyed by the Aberdeen Group report that inbound freight management is a key focus point. In one example, a company with over $18M per year in inbound freight costs reported paying invoices from over 100 carriers – despite having negotiated preferred terms with five carriers and stipulating their use on each order.

Logistics and Supply Chain Organizations face three primary challenges when it comes to gaining the upper hand on inbound shipping spend.

3 Inbound Shipping Challenges Logistics Executives Must Address

Lack of Visibility

Logistics executives are constantly requested by operations, sales, planning,

purchasing, and accounting groups more accurate and timely information on inbound shipments. Today, identifying what's in transit, where it is [2], when it will arrive, and how much it will cost, requires piecing together information from internal paperwork, carrier websites, and phone calls – a time consuming, inefficient process. And that's for one shipment. A comprehensive report might take hours or days to prepare.

In addition, transportation managers who must rely on predominately manual processes to track and trace freight, find themselves answering "it gets here when it gets here". This lack of predictability has ripple effects throughout the company, leading to excess inventory, sales obstacles, and variances in the company's performance of their supply chain. In most organizations, the lack of reliable, easily accessible, real-time data means they must reach out to suppliers for shipment details (carrier name, carrier tracking number or bill of lading, etc). This is an inefficient and labor intensive process, and ultimately, a costly way of dealing with inbound shipping.

Lack of Control

Most companies have developed carefully optimized plans and routing guides that specify how users and suppliers should ship material. However, they have little control over whether these guides are followed, even though they are paying the freight charges. They must rely on their suppliers and employees to execute on routing instructions and guidelines, without any means to enforce these optimized plans.

This is less of a problem with outbound shipping spend, since companies typically have direct control over their outbound freight. But most purchase order terms are "Ex Works' (EXW), where the buyer pays the inbound shipping costs and assumes the risk for the delivery of the goods.

The buyer, in this scenario, is dependent upon the supplier to follow the supplied routing instructions. Unfortunately, suppliers do not consistently follow routing instructions, due to their focus on shipping product to hundreds of customers on a daily basis.

[3]The bottom line is that when a

supplier fails to adhere to the shipping request (e.g., carrier selection, service level selection, account number identification, special instructions, notifications, etc.), the buying company bears the additional freight expenses, as well as the costs resulting from delays in receiving purchased items, supply chain disruptions, and a lack of visibility into the shipment. Costs that usually cannot be tracked back to the product level for accurate Cost of Goods (COGS) calculations.

In addition, once items are en route, the buyer has no means to make changes, whether reacting to external events such as a weather event, or the need to split a shipment for separate delivery destinations.

It may be weeks or months before the increased costs are visible because the invoices for the inbound shipping must be entered and paid before finance can generate a spend report. Even then, all one knows is the total cost. To break down the data in more detail requires going through paperwork manually, logging into multiple carrier shipping portals, and compiling the information various ways to analyze the problem. So, unless a specific question arises or someone makes a project of analyzing the inbound shipping spend [4], the true costs of inbound shipping remains unknown.

Rising Freight Costs

According to the Aberdeen Research Group, on average, surveyed businesses experienced an increase of 14.5 percent in truckload rates, an 11.5 percent increase in LTL and ship rates, and a 15.1 percent increase in international air rates over the last two years.

Clearly, external shipping rates are outside the logistics manager’s control. But that means that careful management of the inbound shipping ecosystem is of greater importance. In addition to increasing visibility and control as discussed above, logistics managers are forced to look to other areas of savings:

- Reductions in staff size
- Smaller IT services budget
- Increase centralization of shipping

However, such changes may only exacerbate the problem. So how do shipping managers control outside costs with fewer internal resources?

- Conduct a thourough freight data analysis to see where money has been lost, so you know where to focus
- Implement a robust transportation management system [5]
- Work with a logistics service provider who can help develop a custom inbound shipping and routing program [6], working one on one with your suppliers

Clearly, managing inbound shipping is challenging. Fortunately, there are now

practical, managed services that enable companies to manage processes, increase visibility, and gain control of their inbound shipment costs. A complete managed service solution combines expertise in complex logistics and with an on-demand system for logistics management. But you need to know what you are looking for when it comes to automated tools [7], systems, and integrated services when choosing a provider or building an inbound freight management program in-house [8].

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