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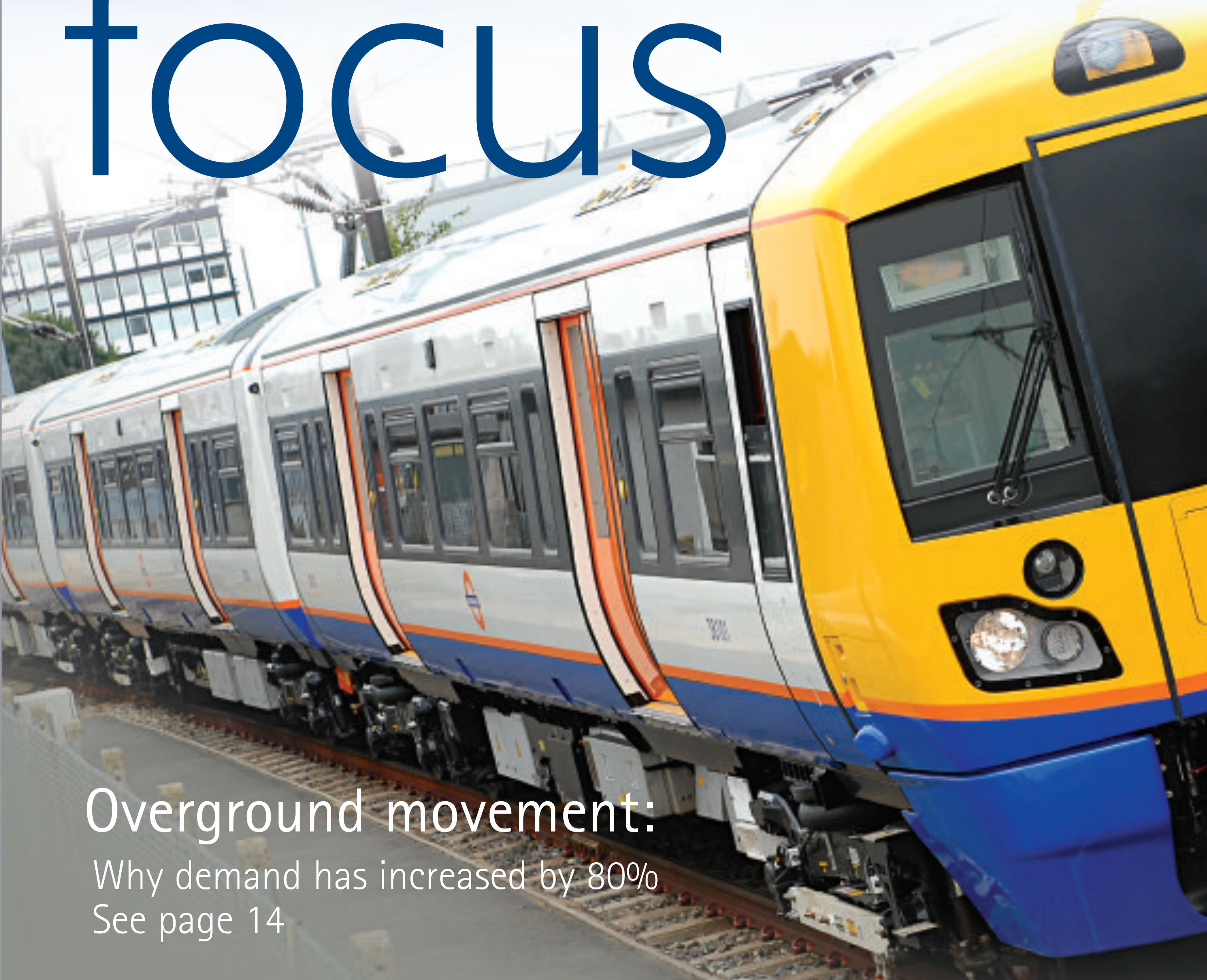

Overground movement:

Why demand has increased by 80%

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It is claimed that road freight operators have been faced with a bill of £1.3 million to cover the rising cost of fuel during the past 12 months

Cost savings for logistics and transport

Many businesses' half-year profits are making for gloomy reading in the face of ongoing economic uncertainty, yet Premier Foods has vowed to slash logistics cost by £20 million. Is the view of organisations such as this simply blind optimism, or are there really savings still to be made that are ripe for the picking?

Expense Reductions Analyst's Kevin Fryer

While many may find the idea of squeezing their logistics and supply chains even further an absurd one, having tightened their belts significantly during the past few years and with fuel prices rocketing, a thorough review of operations can still reap rewards.

Logistics is not just about managing rising fuel prices and getting goods from A to B as cheaply and quickly as possible. Many other factors also need to be considered that can make all the difference to overall costs – for example, speed to market, supply chain efficiency and fluctuating exchange rates.

For those operating on an international landscape, the recent British Chambers of Commerce and DHL Trade Conference Index provides encouragement. It shows a 3.6% year-on-year rise in trade documentation in the second quarter of 2011 and an increased confidence in the UK, with the current overcapacity issue for air and ocean freight carriers providing significant cost savings to offset increased fuel costs.

Going back to basics and reviewing core operations is often overlooked by many organisations that are confident they have the best possible rates and contracts in place. However, with the highly competitive nature of the logistics and distribution sector and fluctuations in global trade, the majority will find if they take a closer look they can achieve further savings.

A sound starting point is a review of road freight, international operations – air and ocean freight, parcel distribution, warehousing and order fulfilment, and fleet costs.

Road freight

According to research from the Freight Transport Association (FTA), road freight operators have been faced with a bill of £1.3 million to cover the rising cost of fuel during the past 12 months. To put this into context, the typical annual cost of fuelling just one 44t truck has risen by £5,700, says the association.

The situation has been eased somewhat by the Government scrapping the proposed 1p fuel duty tax in March 2011 and reducing it by a further 1p, following successful lobbying by the Fairfuel UK campaign and industry bodies such as the FTA and the Road Haulage Association (RHA). However, the proposed fuel duty rise in August 2012 is already causing concern for the logistics sector, with many industry leaders fearing the worst.

Theo de Pencier FCILT, Chief Executive, FTA, says: 'Many companies in the logistics sector are at a tipping point and simply cannot afford to absorb the high fuel costs that they are facing. We have already seen that motorists are being priced off the road, which is certainly hurting the Government's tax take, but the implications as industry faces untenable fuel costs could be far greater. Unavoidable costs either destroy companies or get passed on to customers and ultimately this fuels inflation.'

How the situation evolves remains uncertain. However, in the meantime, taking steps to keep expenditure as low as possible is prudent – for example:

- Ensure you have a rate tariff that lists all the service options your firm requires
- Become familiar with fuel price indices and understand the basis your carrier uses for fuel surcharges; most reputable carriers will offer such indices as the basis for fuel surcharge adjustment and not an excuse to increase margin
- Ensure your carrier is doing everything possible to consolidate loads with the consequent pricing benefits
- Maintain a close scrutiny of service levels to ensure you do not pay more for a lesser service

International operations

Air freight

With airlines snapping up new freighter aircraft left right and centre following a 21% increase in demand during 2010, industry commentators are reporting overcapacity. According to analysts at the Seabury Group, air freight demand grew by 5.5% in the first two months of 2011, while 9.5% capacity was added. Often seen as a costly alternative to other methods of transportation, this overcapacity affords the perfect opportunity for logistics managers to renegotiate rates and reconsider air freight as an option.

When approaching air freight carriers:

- Be sure to assess forecast usage and negotiate rates based on forecast levels
- Understand all the aspects of costs that are included in air freight rates and negotiate each aspect with your selected carrier/agent
- Make sure you have grasped all the elements to the cost incurred in the UK; these costs are often misunderstood and where some carriers hide costs to increase margins

Ocean freight

Despite the demand for shipping services during the past two years, particularly imports from the Far East and India, it seems that, like the air freight industry, ocean carriers are facing over capacity. Analysts Alphaliner's Market Survey in August 2011 reported that excess capacity will have kept ocean freight rates down in 2011, and analyst Drewry concurs, predicting that rates will decline substantially in 2012.

Unfortunate news for freight transport carriers, but a good time to renegotiate current contracts and international shipping arrangements and secure the best rates:

- Be sure to appoint a carrier/agent with its own representation in each country of origin
- Once the relationship is established, challenge rates and surcharges on a regular basis and ensure your carrier/agent provides you with rates in advance of shipment
- Get explanations for each and every surcharge from the outset
- Do not accept quay rent or demurrage charges without an explanation
- Invest time in making sure you have the best relationship possible with your ocean freight provider, it will pay dividends in the long run

Parcel distribution

Once distribution partners are in place, finding a parcel carrier that can satisfy all its requirements and work seamlessly with distributors is a challenge for many organisations. However, considering the following when reviewing the market should help make the process as pain free as possible:

- **Understand your traffic profile** Parcel carriers differ on how they structure their rates: some charge per consignment while some charge per parcel. To help decide on an appropriate carrier for your business, undertake an analysis of your shipments to identify the number of parcels and average weight per consignment, size of packages, geographical spread of deliveries and percentage of business-to-business/business-to-consumer deliveries.

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- **Beware of fuel surcharges** With fuel prices escalating, be careful your carrier does not automatically pass on to you the increased cost. Be sure to negotiate and enquire upfront as to how the carrier accounts for any increase in fuel costs it incurs.
- **Look out for additional charges** Be aware that additional charges exist and will be passed on to you by the carrier – for example, redelivery and 'no one to receive' charges. Ask carriers in advance for a full breakdown of their charges and negotiate a price with which you are comfortable.
- **Review technologies** Some carriers are investing heavily in technology to improve customer service, so find out what technologies each carrier is using and find one with a focus that is the most beneficial to your particular business sector.

Warehousing and order fulfilment

At the core of a successful business is the ability to store its stock efficiently and deliver it without complication to the end-customer. In order to select your warehousing and fulfilment partner wisely, consider:

- **Getting what you need** Carefully consider your true requirements. While you need the basic functionality of a secure, environmentally sound and professionally run operation, do not be tempted by attractive extras you do not really need. Do you really need a state-of-the-art building – will clients be visiting? Do you need instant online updates on stock figures or order status?
- **What to outsource** Professional logistics providers can offer more than storage and order fulfilment. In some cases, they can undertake other supply chain functions on your behalf such as order processing and stock replenishment, which may be cheaper than using your in-house team.
- **The tender process** Provide as much information as possible when putting your business out to tender to potential suppliers. The more up-to-date information you can provide about your product, stock, order profiles and line items, the more accurately suppliers can quote.
- **Get below the surface** Always visit a prospective supplier and check the building is in good working order/secure, employee turnover rates and processes employed. While warehousing is a relatively simple but high-volume activity, it is very easy for things to get out of control during peak periods if strict procedures and processes are not adhered to.

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- **Contractual issues** Warehousing often has a high fixed cost element. Do not commit to any long-term liabilities in case your business requirements change at short notice. In addition, be sure to put contractual performance targets in place, with the right to terminate should they not be met.

Fleet costs

While fuel duty was stabilised in April 2011, concern is growing over proposed rises in 2012, with campaigns such as Fairfuel UK gathering momentum. Taking the following measures now is a timely undertaking for organisations with a large fleet element:

- **Review the market** Do not be fooled into believing that the big supermarkets offer the best price. While many offer very attractive-sounding prices, many offers are short lived. If your organisation uses fuel cards and has weekly contract pricing from the card provider, check that the price moves in line with pump price changes locally.
- **Check driver behaviour** It may appear you are benefiting from low supermarket prices, but this may be because drivers are diverting to gain loyalty card points or take advantage of fuel promotions where they receive money off in store, adding mileage to get there.
- **Fuel on the go** If you use fuel cards, review extra charges paid when drawing fuel on the road. Savings in fuel costs can become easily lost in administrative fees, card charges and handling fees.
- **Professional driver training** Engage with professional trainers to ensure your drivers follow best practice. Follow up with ongoing monitoring programmes to avoid losing the benefits of training programmes, such as reduced fuel consumption and lower accident rates.
- **Get the best out of your tyres** Manufacturers are keen to promote the longevity of their products and the positive impact they have on fuel consumption. Hold them to these claims and agree mileage guarantees as part of any tyre contract, and request a credit if these guarantees are not met. In addition, seek advice from the supplier regarding the best tyres for each vehicle to ensure drivers get the best tyre life.

Bringing in the experts

While most logistics and distribution professionals recognise the importance of regularly reviewing and scrutinising supply chain costs, in reality many do not have time to carry out checks as often as they would like. Simply keeping operations running smoothly is, of course, the first priority and one that takes up a great deal of time.

To overcome this and ensure they are still getting best value for money and driving down costs, many businesses are now outsourcing a review of their supply chain operations.

Case study: PlastiKote

PlastiKote has a portfolio of spray paint products for a range of interior and exterior decorating applications. Since its inception in 1992, it has been is a wholly owned subsidiary of global coatings manufacturer The Valspar Corporation. After a period of significant growth, PlastiKote expanded in to Europe and now has a presence in the UK, Ireland, Germany, France, Denmark, Sweden, Finland, Malta and Switzerland. Acting as a UK distribution hub, it receives products from the US, repackages them and sends them out to retailers in England and the rest of Europe.

In order to support its expansion plans and purchase services as keenly as possible, especially in the critical area of logistics, Joanne Garner, Site and Finance Manager, PlastiKote, consulted Expense Reduction Analysts. Three key areas were determined for further investigation with a view to making further cost savings: inbound ocean freight; outbound UK pallet transportation; and pan-European distribution.

Fergus Smith, Consultant, Expense Reduction Analysts, explains: 'PlastiKote told me that they sat down with their freight supplier every six months to ensure that they were getting the best possible deal. They were therefore justifiably sceptical that we could find any further savings, so they were delighted with the 18.3% that we eventually achieved for them.'

Once freight had been reviewed, Fergus Smith moved on to PlastiKote's outbound UK pallet requirement. Getting product on retailers' shelves in a timely fashion is imperative to PlastiKote's sales success and retailer relationships, so smooth distribution is essential: 'We were able to find a much more local distribution company than the incumbent to fulfil PlastiKote's needs. The company had the infrastructure to handle the smaller deliveries and the critical, time-sensitive, larger deliveries into the major multiples. This organisation interacted with PlastiKote very professionally from the outset, creating confidence in their abilities, and their performance ever since has certainly justified that trust.'

The third project looked at PlastiKote's pan-European distribution, in particular to Germany and Switzerland. Fergus Smith explains: 'Germany is a critical growth area for PlastiKote, with its major customer in the country operating to a very stringent order cycle. This results in short delivery times from the UK to a very exacting two-hour delivery window to its customer's distribution

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centres across Germany. In delivering to Switzerland, a non-EU country, the difficulty centres on dealing with the necessary import and export documentation. Again, we researched the market and recommended a supplier who was expert in fulfilling demand in the face of these obstacles.'

Overall, PlastiKote was able to achieve the following cost savings:

- Inbound sea freight 18.3%
- Outbound UK pallets 26.7%
- Pan-European distribution 39.6%

Joanne Garner comments: 'We are very pleased with the savings that Fergus Smith and the team at Expense Reduction Analysts have uncovered, but we are even more delighted with the way in which these results have been delivered – with no loss of service and with a seamless transition between suppliers. For our business, these benefits have been vital.'

ESSENTIALS

About the author

Kevin Fryer is a consultant, Expense Reduction Analysts, an organisation found in 1992 that focuses on helping public and private sector organisations save money through realising optimum value from suppliers.

Further information

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