

White Paper

The Other Half of Your Net Landed Cost of Goods

Companies selling wares increasingly focus cost-cutting efforts on Cost of Distribution, and it's paying off by quickly and simply reducing net landed cost of goods by as much as 30 percent.

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EXECUTIVE SUMMARY

Net landed cost of goods, the total cost associated with getting goods into customers' hands, consists of cost of distribution (CoD) and cost of manufacturing (CoM). For years, manufacturers and brands have worked to reduce CoM as the means to reducing their net landed cost of goods to compete and succeed in increasingly competitive marketplaces; as this strategy reaches its limits, companies increasingly turn to the often more rewarding yet complex opportunity to reduce CoD.

When a company's CoD represents a significant portion of its net landed cost of goods, opportunity abounds to reduce overall costs and increase margins. Some of the world's top brands are putting cloud-based automation technologies in place in a matter of days to quickly boost shipping efficiencies. These companies are rapidly achieving as much as 30 percent reductions in net landed cost of goods without renegotiating rates by relying on algorithms that optimize inventory allocation and distribution planning.

NET LANDED COST OF GOODS

Net landed cost of goods, the total cost associated with getting goods into customers' hands, consists of cost of distribution (CoD) and cost of manufacturing (CoM). For years, manufacturers and brands have worked to reduce CoM as a means to reducing their net landed cost of goods to compete and succeed in increasingly competitive marketplaces. Nearly every conceivable strategy has been explored to reduce CoM, including reducing labor costs, increasing reliance on automation, negotiating reduced cost of materials and so on. Realistically, while these strategies may have paid early dividends, they have already reached their limit in many cases. After all, with rising global labor and materials costs, limits exist when it comes to cutting CoM.

In the "2013 Global Manufacturing Competitiveness Index," Deloitte Touche Tohmatsu Limited's Global Manufacturing Industry group and The U.S. Council on Competitiveness noted[1]:

> *"Cost and availability of labor and materials continues to transform the global landscape significantly with respect to creating manufacturing competitive advantage. Historically, as reflected in the prior section regarding exports, numerous companies moved their production to emerging economies where labor and materials were cheaper. As a result, the economic prosperity of the citizens in these once low cost destinations has improved, giving rise to a growing middle class—and demands for higher wages.*
>
> *As these countries continue to evolve and move up the product complexity ladder—and in turn, grow their economies and become involved in the production of more complex products—they are becoming less competitive on their labor advantage."*

Even as this strategy reaches its limits, companies looking to remain competitive must find new avenues for cost savings. These companies increasingly turn to the often more rewarding yet complex opportunity to reduce the other side of net landed cost of goods: CoD. Instinctively, companies trying to reduce CoD look to renegotiate carrier rates in their favor. While this may provide short-term dividends, this too has limited long-term viability. As carriers foot the bill for rising fuel and labor costs, their rates stand to increase, reducing their willingness to negotiate supplier-friendly discounts. So how can manufacturers and brands find CoD savings outside of carrier discounts? By finding more efficient ways to distribute, savings can be found in nearly every facet of distribution, from inventory management to transport planning.

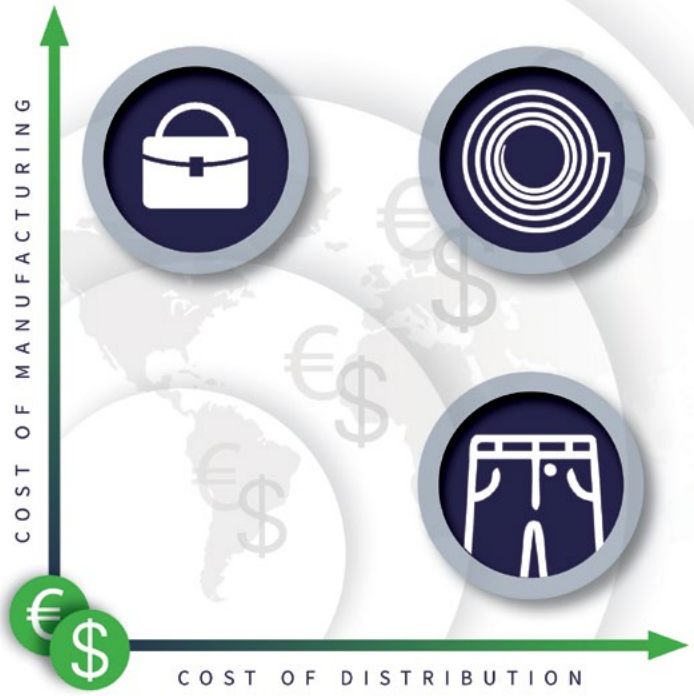
FORECASTING THE OPPORTUNITY

While any manufacturer or brand can benefit from CoD reductions, cost savings will vary depending on the answer to one question: does my CoD represent a significant portion of my net landed cost of goods? If the answer is “yes” then opportunity abounds to reduce overall costs and increase margins.

For example, a maker of designer purses may incur a high CoM, but with small volume and direct-to-consumer shipping, CoD may be low. As a result, reductions to CoD, which represents only a small portion of their net landed cost of goods, likely will provide little impact on the bottom line.

However, most companies shipping business-to-consumer or business-to-business products, regardless of their CoM, can significantly improve margins by cutting CoD.

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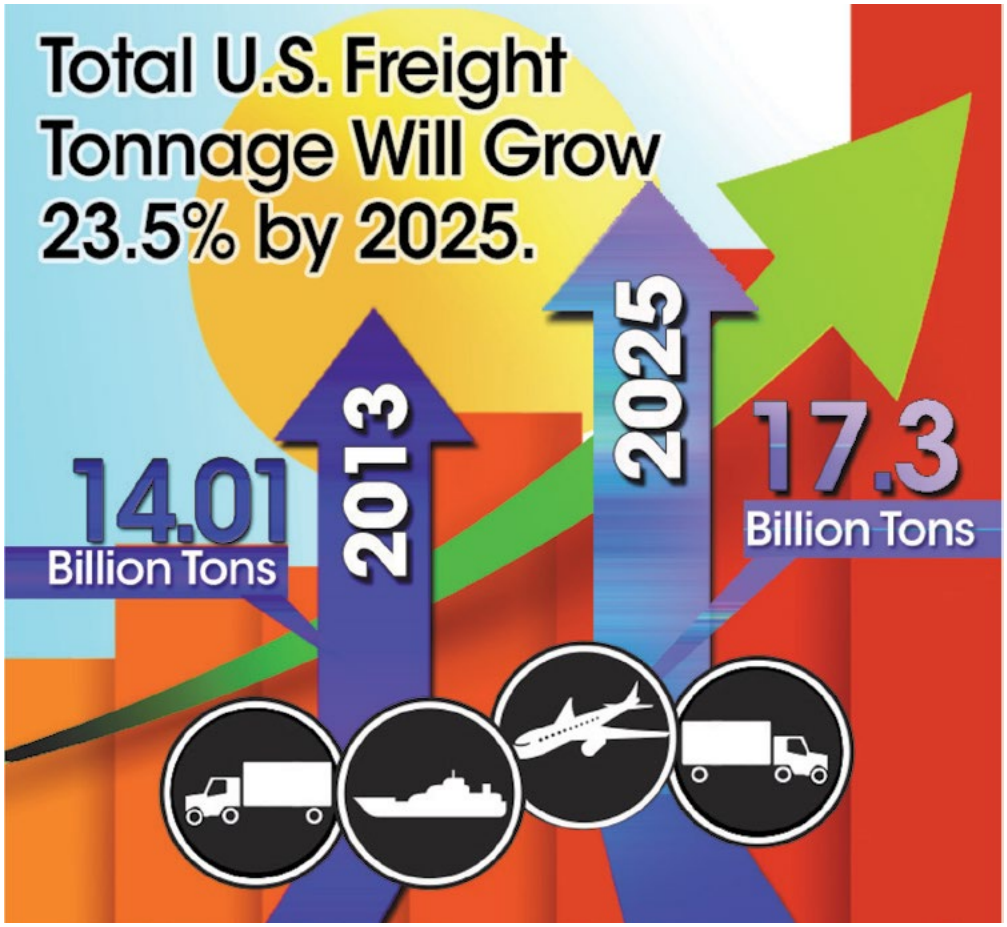
Goods with high and significant distribution costs include jeans and other apparel products, industrial steel coils weighing as much as 20 tons and many other products. On the other end of the spectrum, manufacturers of designer purses and other products that command a high price point typically enjoy wide profit margins and are less likely to pursue cost savings on shipping each piece in favor of customer loyalty and the fastest possible delivery.

DISTRIBUTION COSTS ON THE RISE

Regardless of the percentage of net landed cost of goods they represent, companies across every sector face increasing CoD due to transportation industry labor shortages, which create higher demand and fewer available shipping lanes, as well as rising fuel costs and regulatory changes.

According to the American Trucking Association, the trucking industry currently faces a shortage of roughly 25,000 drivers with expected increases over the next decade pushing the total closer to 200,000. Shifting demographics, changing regulations and the need to spend a lot of time away from home have led fewer potential drivers to enter the profession each year with no clear solutions available to lure them back.

Simultaneously, the American Trucking Association predicts freight tonnage will grow 23.5 percent from 2013 to 2025 and freight revenues will surge 72 percent.



Source: American Trucking Association, Forecast 2014

An increasing shortage of drivers combined with an increasing demand for their services, creates a highly competitive environment and skyrocketing shipping costs.

Also driving up distribution costs, according to U.S. Energy Information Administration projections, we can expect continued increases in fuel costs moving forward[2]:

> *"With lower crude oil prices and lower gasoline demand projected in the AEO2014 Reference case, the real end-use price of motor gasoline in the United States declines to $3.03 per gallon (2012 dollars) in 2017, then rises to $3.90 per gallon in 2040 (compared to $4.40 per gallon in 2040 in AEO2013). The end-use price of diesel fuel in the transportation sector follows a similar pattern, dropping to $3.50 per gallon in 2017 and then rising to $4.73 per gallon in 2040 (compared to $5.03 per gallon in AEO2013).* ***Although both gasoline and diesel prices dip modestly in the early years of the projection period, they increase steadily thereafter."***

Changing regulations for the transportation industry also bring cost increases. The American Transportation Research Institute (ATRI) released a report in November 2013 titled "Operational and Economic Impacts of the New Hours-of-Service," detailing the impact of changes made to rules governing Hours of Service for the transportation and shipping industry. Among the key findings:

- More than 80 percent of motor carriers surveyed have experienced a productivity loss since the new rules went into effect, with nearly half stating they require more drivers to haul the same amount of freight.
- Commercial drivers are forced to drive in more congested time periods, although the FMCSA Regulatory Impact Analysis did not address increased safety risks with truck traffic diversion to peak hour traffic.
- In a separate pre-implementation analysis ATRI, using log book data representing normal trucking operations, projected an estimated cost to the industry of $95 million to $376 million annually.

For manufacturers and brands that haven't already, it's time to examine the impact these economic and legislative trends will continue to make. Though optimizing distribution processes cannot directly impact the cost of fuel or influence regulatory changes, any efficiencies achieved in the distribution model can help to offset these rising costs. The mounting driver shortage further raises the stakes; shippers who make better, more efficient use of their personnel and other resources stand a better chance of keeping costs in check. Do nothing to create efficiencies, and CoD will automatically increase.

PRIORITIZING EFFICIENCIES, NOT RATE NEGOTIATIONS

These trends make negotiating carrier rates an even less desirable or sufficient option than before; so manufacturers and brands are increasingly reconsidering cost-savings strategies and finding ways to use carriers and vendors more efficiently. Route optimization and planning technologies, which apply algorithms to every single order, can help mitigate the impact of driver shortages, rising fuel costs and increased road congestion by examining shipping orders for variables such as order size, type and destination and combining them with local variables such as street restrictions (one way, no trucks over a certain size, etc.) and fees (tolls, border taxes, etc.) to determine optimal carriers, fleet types and routes.

For example, if a beverage company receives six orders of varying sizes with delivery destinations in five Brazilian provinces, and the ordered products are stored in two different warehouses, route optimization technologies can rapidly determine the most efficient acquisition and delivery methods. Perhaps it's more cost effective to send a single refrigerated truck between the two warehouses to collect the requested products and then deliver them to a single location where the products are divided into smaller trucks for local delivery, thus avoiding repeat border taxes as a single truck crossed from province to province.

These optimizations aren't limited to roadway shipping. Cloud-based technologies can also help determine which transport mode is the cheapest and which best fits the shipper's needs. Having the right technology which identifies the cost of intermodal, intra-model and multi-modal shipping options can significantly improve margins, because the selection of optimal rates for each shipment based on capacity constraints, service type and delivery requirements can decrease freight costs substantially.

While it's possible to handle some of these optimizations manually, as orders grow in number and size, the calculations become increasingly complex. Optimization and planning technologies enable companies to take control of operational and cost-related shipping variables without increasing staff workload or responsibilities, by responding to complex problems with more informed decision-making in a fraction of the time otherwise required.

Similarly, execution monitoring and cost management technologies can be utilized for full visibility into carrier performance, rapid adjustment for unplanned delays, and quick auditing and invoice settlement, which can help preserve quality relationships and collaborative partnerships with carriers and vendors. Even with the best route optimization and planning technologies, unforeseen variables such as accidents or severe storms can cause delays. Real-time insight into these delays enable quick route adjustments and rapid communication to all vested parties (staff, carriers, customers, etc.).

Of course, these delays and exceptions can also impact expected invoices. Cost-management technologies can estimate expected costs and generate pre-invoices; for trusted carriers who routinely meet budgets, the technology can automate exceptions management with pre-set thresholds (automatically approving invoice fluctuations less than 15 percent, for example) to enable rapid automated invoice reconciliation. For other partners, exceptions can be flagged for manual processing, providing manufacturers and brands insight into which carriers provide the most reliable service and eliminating less reliable, and thus more expensive, options from the pool of candidates.

More efficiencies can be found in areas including inventory and warehouse management and order consolidation. When combined with regular route optimization and planning, execution monitoring, and cost management efficiencies, companies who stay diligent can reduce their net landed cost of goods as much as 30 percent.

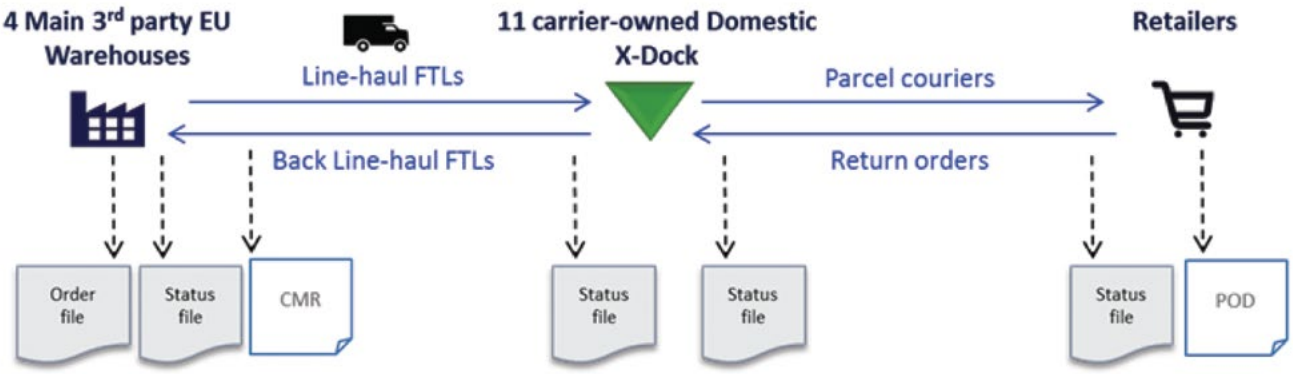
CASE STUDIES

Eyefreight, a provider of SaaS transportation management system (TMS) technology, has helped numerous brands across the globe optimize their distribution processes. The following examples show Eyefreight's flexibility to adapt to the unique needs of shippers with complex distribution scenarios to reduce their net landed cost of goods and positively impact the bottom line.

A Top Brand-Name Apparel Company

One of the world's largest brand-name apparel companies, which sells jeans, casual wear and related accessories for men, women and children sought to optimize distribution for a complex regional operation which includes:

- 12,000 regional shops
- 11 local customer service departments
- 20 carrier networks
- 4 (3PL – owned) warehouses/regional distribution centers
  - Northampton (UK)
  - Bornem (BE)
  - Sabadell (SP)
  - Pohorelice (CZ)

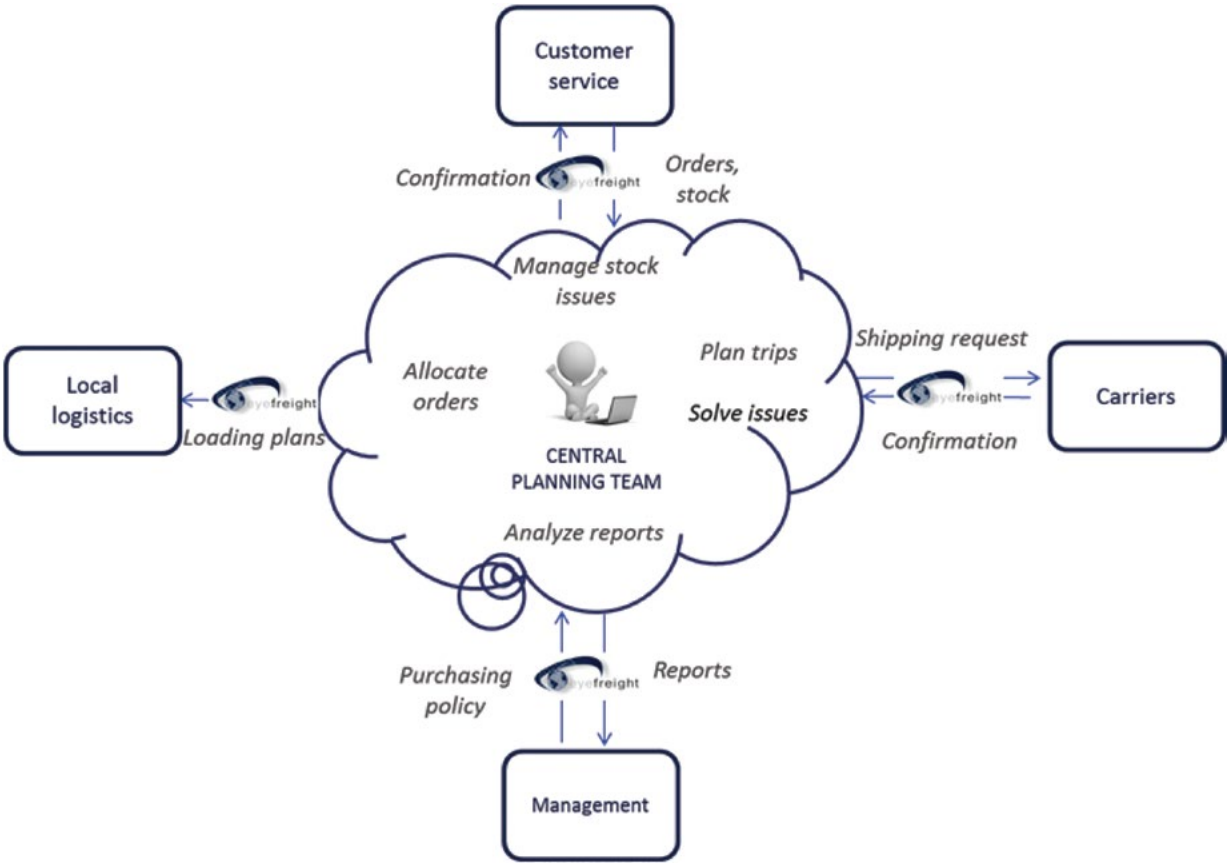


Eyefreight provides this apparel brand full visibility of all shipping flows including returns, convenient record generation, and storage and visibility of valid and active tariffs. These real-time insights and advanced reporting capabilities improve flexibility, enabling the apparel brand to quickly and seamlessly adapt to frequent market and regulatory changes and improve customer service through status update management. Thanks to Eyefreight's pre-invoice functionality and automated exceptions management, the apparel brand and its carriers benefit from quick and accurate end of invoice reconciliation and payment.

Leading Beverage Distributor

An independent global brewer operating more than 165 breweries sought an end-to-end solution for managing and optimizing every facet of their distribution across 30 countries. The system needed to handle:

- Order allocation
- Shipment planning
- Shipment monitoring
- Invoice checking
- CO_2 reduction



Eyefreight provides this beverage distributor a SaaS solution capable of rapidly optimizing each facet of the product supply chain, including full integration and optimization of outbound and empty return logistic flows, full visibility of delivery statuses thanks to direct data exchange with carriers, automated calculation of carrier key performance indicators (KPIs) and related bonuses, as well as seamless integration of corporate standard KPIs.

Within months of implementing Eyefreight, the beverage distributor achieved a double digit reduction in transport cost per hectoliter, increased perfect customer orders, radically decreased the planning team's workload and significantly reduced CoD, including reductions in transportation costs (≈7 percent), distanced traveled (≈15 percent) and carbon footprint (≈20 percent).

ABOUT EYEFREIGHT

Eyefreight improves margins for shippers by reducing net landed cost of goods as much as 30 percent. A SaaS solution, Eyefreight empowers shippers, deploys quickly and can generate ROI in less than six months. A transportation management system (TMS) at its core, Eyefreight incorporates inventory visibility to offer unique cost savings opportunities and seamlessly integrates into existing enterprise resource planning (ERP) systems.

With more businesses shifting their cost-cutting focus to cost of distribution, shippers with significant distribution costs can use Eyefreight's patent-pending technology to obtain a competitive advantage today or catch up to the competition tomorrow. Whether a shipper manages outsourced transportation, its own fleets or both, Eyefreight accounts for all costs and tariffs and provides optimal delivery options based on inventory location and availability.

The right solution for today, shippers don't have to replace a single piece of technology to begin reaping the benefits of Eyefreight. Ready for tomorrow, Eyefreight helps shippers fully embrace the cloud to reduce net landed cost of goods as much as 30 percent without renegotiating rates. ●

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[1]http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_pip_GMCI%20report_Ten%20global%20drivers_12132012.pdf

[2] http://www.eia.gov/forecasts/aeo/er/early_prices.cfm

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