VANTIX

INBOUND LOGISTICS: 10 COMMON TRAPS AND PITFALLS

WHITE PAPER

Every company is looking for ways to improve margins and overall organizational accountability. Inbound logistics is fast becoming a point of emphasis for companies looking to improve control over their entire supply chain. This white paper explores 10 of the most common pitfalls experienced by organizations that have implemented an inbound logistics solution—and how you can avoid them.

SUPPLY CHAIN LOGISTICS: NOT JUST A ONE-WAY STREET

For today's distributors and wholesalers, the challenges to profitability are more numerous than ever. Widely fluctuating fuel costs, increasing government regulations, higher taxes, supplier demands and many other factors all impact the bottom line. In the face of these daily battles, many organizations are focusing on one of the most critical areas of their business to create higher efficiencies, margins and, ultimately, profits: the extended supply chain.

In particular, logistics management has been a key focus. From on-time percentages to damaged orders to faster delivery routes, every company can identify some area in which they can improve. To date, almost all the attention has been on outbound logistics. This is not surprising as organizations instinctively will look first at the products and services they package up and ship out of their facilities as an area for improvement.

However, in today's economic climate, companies are beginning to expand their view to include inbound logistics as another area where they can generate cost savings—in addition to other benefits.

Including inbound logistics in a process efficiency discussion might seem obvious, but there is a significant reason why it hasn't happened for most—the inbound portion of the supply chain is not always handled by a company's logistics team. In many cases, inbound transportation issues are left up to suppliers. Any issues or questions are often addressed by procurement or accounts payable departments. These professionals—though they may be very good at their jobs—often lack the specialized knowledge required to identify and address inefficiencies and spiraling costs. The result is that a critical element impacting the landed cost of goods is out of the logistics team's control.

By expanding the focus to include inbound logistics, many companies are enjoying considerable cost savings. They are also finding many other valuable benefits, including greater control and visibility of the overall supply chain, reduced product delays, more efficient loading and unloading processes, and an overall improvement of service.

However, identifying the problems is just the first step. The challenge is in determining how to improve upon them, as existing outbound logistics teams are often unable to take on the additional responsibilities of managing the inbound process as well.

To address these issues, many companies are turning to third-party partners to help them transform inbound logistics from a cost center into a competitive advantage. But regardless of whether you are addressing the challenges in-house or seeking external help, there are numerous potential pitfalls. Let's examine some of the common traps in implementing an inbound logistics program—and how you can avoid them.

10 QUESTIONS TO ASK PROSPECTIVE LOGISTICS PROVIDERS:

How well do they understand the complexities of your shipping needs?

What standards do they apply to their carriers?

What is their strategy/plan for coping with changing capacity needs?

What is their customer service philosophy?

What is their reputation in the industry?

What kind of relationships do they have with their carriers?

What bottom line impact can they have on my business?

How committed are they to driving success?

What happens to your costs if pass through costs change?

What extended relationships do they have that can help you?

Pitfall #1: Thinking that logistics is just about managing shipping

Inbound logistics may seem like a straight-forward proposition: A supplier has a product that must be transported from their facility to yours. For some organizations, a transportation solution may be no more complicated than that. In many cases, though, the exercise is far more complex. Loads that are temperature sensitive, require specialized handling or are subject to government regulations require specialized knowledge. Mishandling these items can have severe implications for the business, whether from product that is damaged or spoiled, or from fines and lawsuits.

> "A broker may do a very good job of arranging transportation, but they will likely lack the expertise or the relationships necessary to ensure proper handling of your load."

The challenges associated with complex freight logistics can make building an in-house solution difficult. When that is the case, many companies turn to logistics services partners that are better suited to address complex transportation needs. These logistics-focused organizations consider all factors when helping you arrange transportation, not just the process of physically moving product. Selecting the right partner, however, is not always easy, as many shipping brokers claim to offer "logistics services." A broker may do a very good job of arranging transportation, but they will likely lack the expertise or the relationships necessary to ensure proper handling of your load.

When evaluating an inbound logistics solution, begin by defining and setting out the complexities of your shipping situation. A good logistics partner wants to build a long-term relationship, and should be asking detailed questions about the nuances of your products and business. As you evaluate potential partners, always consider how comfortable you are with both their expertise and commitment to addressing all of your transportation needs.

Pitfall #2: Getting stuck with the wrong carriers

Experience and relationships with quality carriers matter. Not all carriers adhere to the same standards of equipment maintenance, quality control or insurance levels. Firms will sign-up to haul loads for which they lack expertise or specialized equipment. Sometimes the load will get delivered, but is delayed or damaged due to using inappropriate transportation. If the wrong partner is chosen, the damage will impact your organization (reputation, schedule, profitability, etc.), even if the carrier can be held accountable.

A quality logistics partner can help prevent these problems. They will have long-term relationships with carriers they trust. They will understand that the lowest price option is not always the best solution for a particular load. Plus, they will have requirements and standards in place to make sure that your product is delivered on time—without sacrificing quality control.

When considering an inbound logistics solution, it is critical to look beyond your partner organization. Consider the relationships they have with carriers across various lanes, as well as the reputation of those carriers. A good logistics partner will not only help address shipping problems, they will work to ensure that the problems don't happen in the first place.

Pitfall #3: Not thinking about how to manage changing capacity needs

Many businesses fall into the trap of considering short-term transportation needs without planning for how those demands—or the market—may change in the future. The shipping industry is facing changes that will have serious implications for businesses seeking to maintain their current shipping volume—and even more for organizations that are growing. Many shipping companies went out of business during the recent recession. As the economy improves, there is a looming shipping capacity shortage, as an increasing number of loads will compete for a reduced number of lanes.

The economic downturn has also created a shortage of professional drivers. This may result in a dual crisis of both capacity and quality as carriers turn to inexperienced drivers to meet surging demand.

In order to stay successful, businesses will need scalable, redundant transportation coverage. Avoiding the capacity crunch will depend on having a solid plan in place that covers multiple carriers across multiple lanes of transportation. Ensuring that these standards are maintained will become even more critical as less experienced drivers enter the workforce. Make sure that your logistics partner understands the coming crisis—and has a plan in place for meeting your transportation needs in the years to come.

Pitfall #4: Thinking that customer service doesn't matter

Customer service is often overlooked until something goes wrong, yet business profitability and continuity can depend on it. This is particularly true in highly complex transportation environments, with multiple carriers handling freight across dozens of lanes. Having a responsive team in place to manage your inbound transportation needs is critical, as your entire supply chain is only as good as its ability to overcome obstacles, big or small.

> “A good customer service-focused partner can help ensure that your organization has visibility of the entire supply chain, making it easier for your organization to operate efficiently.”

An issue as simple as a delayed delivery can often wreak havoc on carefully planned work and production schedules. But in complex shipping environments, keeping tabs on every delivery can be a huge challenge. A good customer service-focused partner can help ensure that your organization has visibility of the entire supply chain, making it easier for your organization to operate efficiently.

Even more critical is what happens when natural disasters or other problems strike. You and your partners must be able to respond quickly to changing circumstances, regardless of if that involves re-routing loads to different locations, securing new carriers, changing freight lanes or modes of transportation. It can be difficult to predict how an organization will react under pressure, so experience matters. Any of your partners should be able to provide references to show how they have addressed transportation challenges effectively in the past.

But customer service is more than just dealing with disasters and problems. A good customer service organization should make doing business easy. Your partners should be committed to your success. When talking to reference accounts, it is critical to understand how a partner manages day-to-day operations, as well.

Pitfall #5: Failing to do due diligence on your logistics partners

In any industry, organizations develop reputations, good or bad. When making decisions about logistics partners, many companies will ignore the warning signs and focus exclusively on price. This can lead to significant problems down the road.

A few things to consider and ask:

- What is their reputation and track record in the industry? Do their customers, peers and partners think highly of them? Do they have a proven record of success?
- Are they financially stable? Are they going to be in business next year? Do they follow reputable accounting practices?
- What do their customers say about them, beyond customer service questions? What is it like to work with them? Are they a true partner? Are they easy to work with?

- Do they have standards, practices and procedures in place that ensure a successful operation?
- Do they have a reputation for honesty and openness?

Questions like these can help you select a partner or set of partners best suited to helping you manage and maintain a profitable inbound logistics program.

Pitfall #6: Thinking that carrier relationships don't matter

> "Effective logistics management is about building and maintaining relationships."

Carrier relationships are often overlooked in the transportation industry. The service they provide is seen as a commodity, and as such, price has become the prime differentiator. Carriers bear the brunt of that burden, with many brokers pitting competitors against each other to drive costs down even further. In doing so, they create antagonistic relationships that may not be problematic when capacity is plentiful, but can become a significant issue when carriers can be selective about the loads that they carry.

Effective logistics management is about building and maintaining relationships. Your organization will likely develop relationships with some carriers, but one of the advantages of a third-party logistics company is an extended network of carrier relationships. A partner that has good relationships with multiple companies is more likely to be able to secure shipping lanes when capacity gets tight or when disaster strikes.

When doing your due diligence about a potential partner, ask questions about their relationships with carriers? Do they extend the same partnership approach to their carriers that they do to their customers? Are carriers willing to work with them when things get difficult? Trust-based relationships between you, your logistics partners and their carriers can help ensure a long-term, mutually beneficial partnership.

Pitfall #7: Getting distracted by sophisticated industry terms

Transportation logistics has its own jargon. As is often the case with industry-specific terms, these buzzwords can sound impressive, but often bewilder and confuse newcomers. Many logistics companies will take advantage of that, using language like "continuous moves" and "multi-mode management" to try to elevate the perceived value of their services. This is not to suggest that the functions lack value—quite the contrary, they can be very important to a true logistics solution—but they may not be the most important things to consider. Unfortunately, many logistics organizations will use these terms to distract potential clients from the issues that really matter.

When confronted with a string of industry buzz terms, make sure that you understand what they mean in the context of your needs. More importantly, ask yourself what—if any—impact those particular functions will have on your business.

Pitfall #8: Failing to incent partners to strive for improvement

Many businesses fail to realize one of the principal financial challenges of inbound logistics: that the shipper carries the majority of the risk. Transportation contracts are often negotiated with attractive "pass through shipping costs." On the surface, this may seem worthwhile as it creates a layer of fiscal transparency—but these kinds of agreements are seldom designed to promote overall efficiencies. As a result, a logistics partner may have no real incentive to negotiate good rates.

A logistics company who is committed to partnership will be willing to negotiate an agreement that is less one-sided. When evaluating logistics solutions, make sure that all parties have a vested interest in—and an ongoing commitment to—maintaining efficiencies and keeping costs low.

Pitfall #9: Focusing on short-term savings at the expense of long-term value

In tough economic times, price will always be a key factor in the selection of any product or service. Discerning businesses understand value as well, and they seek to understand the full implications of a seemingly low price. In some cases, a low quote can conceal a variable cost structure. If this occurs, you could face escalating costs with very little recourse.

What do delayed shipments cost your organization when dock or warehouse workers stand idle? What is the impact when mishandled product has to be returned or discarded? What impact will it have on your organization if you cannot react to changing circumstances from disasters, capacity changes or even your own changing shipping needs?

> "…make sure that your partners understand the difference between low price and value."

When considering any partnership, look beyond the bottom line. Identify what the risks and opportunities are for your organization. But most importantly, make sure that your partners understand the difference between low price and value.

Pitfall #10: Failing to focus on the big picture

Evaluating a potential logistics partnership is a complex, multi-faceted process. It's easy to focus on a few key issues (like price) that, although they are important, only address part of the story. In the age of increasingly connected business relationships, it is always valuable to think about what connections can be made through a new partnership. Consider the larger picture of your partners. What relationships do they have in place that could benefit you? Do they have access to warehousing facilities if you need them? Do they have other relationships beyond the transportation world that you can profit from?

It is impossible to identify all of the areas of potential opportunity. But it is important to ask as many questions as possible. Your potential partner may be able to offer some advantages beyond what you expect, and that could possibly make a big difference to your bottom line.

AVOIDING PITFALLS STARTS WITH ASKING THE RIGHT QUESTIONS

The process of selecting a logistics partner can be very complex. There are many areas where it is easy to make a bad or poorly informed decision. This paper presents some of the potential problems—and how to avoid them. Whether you are thinking of doing it yourself or looking for a partner, ask the tough questions. Look for answers that will deliver a long-term solution. By doing so, you're putting yourself on the path to taking better control of your inbound logistics—and your entire supply chain.

ABOUT VANTIX

Vantix is a division of McLane, an industry-leading $30 billion supply chain services company (and a part of the Berkshire Hathaway holding company). They have access to one of the largest private fleets and distribution networks in the U.S. As part of the logistics team that delivers more than 10 billion pounds of products annually, Vantix has the relationships—and negotiating power—to ensure its customers get optimal rates and service on any freight lane in the U.S. For more information, please visit **http://www.vantixlogistics.com**.

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