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# The End of Pre-Paid Freight?

This paper is meant to address the issues surrounding the cost of freight, how it is incorporated into the cost of the product being shipped, and how freight cost can be re-organized to save the purchaser money and time. It is commonplace that many companies allow their suppliers to build the cost of freight into the price of their products. The customer in this case simply issues one purchase order and waits for the freight to arrive from the supplier. However, is this in the best interests of the company purchasing the product?

A general assumption many individuals who allow their suppliers to cover the freight costs is that it is likely going to be the cheapest (or close to) method of shipping. Unfortunately, more often than not this is not the case. What many need to keep in mind is that providing freight services to clients (from a vendor/supplier perspective) is a value-added service which incurs costs to the supplier. This value-added service is most often not a core competency of the shippers and as such, efficiencies are not ideal, costs are higher, and the supplier will build in a certain amount of margin into the shipping costs to increase profitability. Combine this with the fact that they are essentially a monopoly supplier; the shipping costs the purchaser pays for could be fairly inflated without their knowledge. This can be an easy way to hide extra costs into the overall price of a product and at the end of the transaction it also tends to increase transit time and reduce the supply chains visibility.

The other assumption is that this method will be the easiest and most effective way of shipping the freight. From the perspective of the purchaser, it can look though that this is the 'easiest' option. The supplier likely has good intentions to keep the customer happy; but their

core focus is on profitability. As we've seen before, the supplier will generally pursue a cost-effective method and will build in a profit margin into the freight costs. As a result, this can have a drastic impact on service and transit times. The abilities of the supplier to evaluate all angles of the shipment from the end customer perspective are often lacking because the focus is on completing the transaction, getting the freight out, and maximizing profit. The result here is a shipping schedule that can take significantly longer than it should, a lack of certainty of where the shipment is, and an overall increased disconnect between the truck driver and receiver.

Therefore, there is a great need from a purchaser perspective for a better way to handle the freight of incoming products purchased – a process which keeps service levels at the customers desired level and reduces cost at the same time. This is where a third-party logistics provider (3PL) can come into play. Did you know that a vast majority of suppliers already use one or more 3PLs to ship their freight? Even if the purchaser does not want to commit to using a 3PL, the information they provide with regards to prices on shipping lanes could result in several benefits including cost savings as well as increases in service, let alone the insight of how much the freight should cost for a particular shipment.

Part of this cost saving is a result of removing an intermediary from the price of your shipping. Part of the cost saving is having more control over what service level you need for the shipment. A reputable 3PL should be able to provide a price breakdown of any given shipping lane as it pertains to transit times, pickup window hours, and availability. With this knowledge

in the hands of the purchaser of the product, he or she becomes better able to trace the shipment and plan for the delivery much more efficiently. As outlined here, the value added to the transaction by a 3pl from a purchaser perspective is blatantly evident - the result is more control, more visibility, less work and the opportunity for overall cost reduction.