

# The Real Cost of Shipping Mistakes

We reveal how shopping for the lowest freight rate for trucking services can actually *increase* your costs



Freight shipping insights from Service Freight Systems.

# The real cost of shipping mistakes

Perfect is everyone's goal in logistics, but perfect is a pipe dream. When it comes to freight shipping, bad stuff will happen, it's just a question of when.

The cause could be traffic, weather, paperwork snafus... It doesn't matter. What *does* matter is the carrier or freight broker partner you're relying on to get you through the situation with the least possible cost and customer fallout. The real value of that partner is often lost on many freight shippers.

These days buying truck capacity has become a race to the bottom. Shippers want to reduce costs, so they pit carriers and brokers against each other to get the lowest freight rates. But here's the problem: when you commoditize the service, you can impact the quality of that service by forcing your carrier partner to reduce necessary resources. Any performance dip can have huge financial consequences.

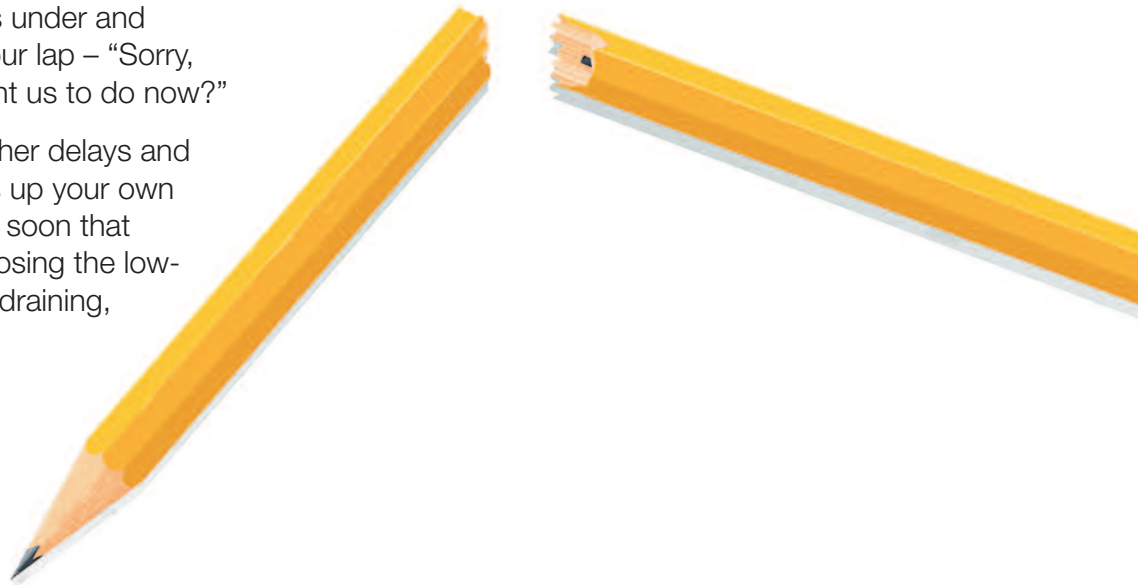
When mistakes happen on the road, you want a partner that will buckle down and work the problem, not one who buckles under and throws the problem back in your lap – “Sorry, not our fault. What do you want us to do now?”

The latter reaction triggers further delays and additional costs, and also eats up your own staff's time to fix issues. Pretty soon that 3-cents-a-mile you saved choosing the low-priced carrier leads to a profit-draining, \$2,500 cost to your company.

And here's the kicker. Most shippers don't track these mistake-related costs as a freight expense, so the freight manager who sourced capacity for less gets a gold star, while the CFO scratches his head wondering why profit margins are dipping.

Let's be clear: freight rates matter. There is absolutely no need to pay premium rates to get stellar service. The right partner should offer the process efficiency and commitment required to combine a competitive rate with personalized service that lowers your overall costs.

**Shippers must make the critical connection between carrier choice and all the costs related to shipping mistakes.** In this paper, we'll review why this is so important, and how massive the costs can be. Specifically, we'll examine 3 actual examples of shipping mistakes – caused by a shipper, a carrier and a consignee – and spell out what the choice of an indifferent shipping partner may be costing you in real dollars.



# Shipper mistake: Proactive freight broker involvement mitigates cost

The following real-world example shows how quickly a very simple mistake can turn into a costly nightmare.

A Midwestern U.S. shipper, who moves dozens of truckloads to customers in the U.S. and Canada each day, loaded the wrong freight on two trucks. It was an error by a new employee. One driver headed to Ontario, Canada with all the right paperwork to get across the border, but the wrong product. The other went to Atlanta. Two days later (on a Thursday), the unfortunate switch was discovered during unloading by both consignees.

Fortunately for the shipper, both loads were covered by a freight partner willing to jump in and deal with the problem head on. This broker became “Central Command” for fixing the issue, coordinating everything between the shipper, customs broker, two consignees, and all the individual carriers involved.

Resolution was messy. The product in Canada was needed in Atlanta ASAP, and vice-versa. The delay would affect production at both locations and countless outbound customer deliveries. Both consignees were upset, making quick resolution all the more urgent.

Here are some of the steps the freight broker took immediately to get things back on track:

- Worked with the shipper to create new customs paperwork to get the load in Canada cleared back to the U.S., which required calls and coordination between the shipper and customs broker
- Found an expedited carrier to pick up right away and deliver to Atlanta
- Shipped the Atlanta load to Canada with a new carrier able to enter the country (the current one could not)
- Arranged short-term storage to offload products from the two original carriers

Working and thinking fast, the broker was able to coordinate the quickest possible resolution. Although frustrated, the consignees appreciated the speed with which the problem

was solved and the constant communication by the broker.

The shipper appreciated having a proactive partner that not only fixed the problem, but minimized out-of-pocket costs and staff time required to deal with the issue.


***This broker became “Central Command” for fixing the issue, coordinating everything between the shipper, customs broker, two consignees, and all the individual carriers involved.***

# Calculating the cost of this shipper mistake

This loading dock error led to very quantifiable costs to the shipper. But for this situation, it's also important to measure the costs that were avoided because the shipper worked with a freight broker that they knew would be accountable for the solution, despite the fact that the broker was not the cause of the problem.

The side-by-side comparison below illustrates the cost of the mistake using a proactive freight broker (right side) versus the cost of using a partner without the wherewithal, or inclination, to take charge in this situation and minimize costs and customer frustration.

Cost components	Potential cost with heavy shipper involvement to fix problem	Costs incurred using proactive shipping partner	Actions taken to mitigate costs
Loss of truck revenue for a day while awaiting new delivery locations (layover charges X 2 trucks)	\$700	\$200	New temporary delivery locations quickly provided - only 2 hours wait time applied for each load
Mileage cost for each driver to take loads to storage locations	\$700	\$700	
Weekend warehouse storage required due to delayed response in identifying new carriers	\$1,000	\$200	Broker avoided warehouse costs by getting new carrier partners to unload freight and store on their trucks
Cost to get new carriers in Ontario and Atlanta to deliver to proper locations	\$5,000	\$4,000	Freight broker leveraged carrier relationships to obtain better rate
Customs correction costs	\$500	\$500	
Shipper's time to contact consignees and coordinate the solution	\$1,500	\$750	Broker handled most coordination after conferring with shipper
<b>Total</b>	<b>\$9,400</b>	<b>\$6,350</b>	
	<b>Costs avoided: \$3,050</b>		



# The cost of a carrier mistake

Each week a small electronics manufacturer delivers 2 truckloads to a regional distribution centre of a big box retail chain. Looking to reduce logistics costs, the company decided to use a new carrier promising to save them \$65 on what's normally a \$625 truckload cost.

The first 2 loads work out okay, but then the problems start. The carrier found another customer with better paying loads nearby and instantly diverted capacity there. The load sat waiting for pick up because the original driver was reassigned to the new customer. Even knowing the urgency of the shipment, the carrier walked away from the load.

The manufacturer then scrambled to find a new carrier, paying more than they ever had in the past, and missed their delivery appointment. Worse yet, the retailer's dock did not have the ability to "work in" the driver when the truck did arrive, something the regular carrier had always seemed to figure out when there was a delay. As a result, the driver had to sit for 48 hours until the next delivery window.

**The costs below show how a \$65 "savings" turned into a \$2,225 cost.**

<b>Shipping costs</b>	
Late delivery fine from retailer	<b>\$1,000</b>
Premium paid on freight above the average rate	<b>\$200</b>
Detention at consignee waiting for next available appointment (@\$325 per day)	<b>\$650</b>
<b>Time costs</b>	
Time incurred by the shipper to notify the customer of the delay and find a new carrier	<b>\$375</b>
<b>Total Cost</b>	<b>\$2,225</b>



# The cost of a consignee mistake

Sometimes mistakes can be triggered by the consignee. Here's one example that demonstrates the costs avoided by using a freight broker with the process and connections to avoid a costly delay.

A load of frozen pastry was picked up in Toronto on Wednesday for delivery to a Miami distribution centre on Saturday at 5 p.m. When the load arrived on time, it was refused by the receiving clerk, whose system indicated that it was due the previous day. The carrier had another pick-up scheduled and had to be unloaded Saturday night. That's when the broker took action and did the following – all after hours on the weekend:

- Checked the documented notes in the transportation management system and identified the name of the receiving clerk who provided the Saturday appointment
- Delivered a “hard copy” of the approved appointment to the retailer
- Called the receiving supervisor, whose cell number was in the broker's system
- Arranged for the truck to stay on site and be classed as a “work in” to be unloaded that night

The side-by-side comparison below illustrates the actual costs (right side) versus what you would have paid had the delivery been refused and delayed until the following Monday.

Cost components	Potential cost with heavy shipper involvement to fix problem	Costs incurred using proactive shipping partner	Actions taken to mitigate costs
<b>Shipping &amp; warehousing costs</b>			
Late delivery fine (receiver's system showed load was late by a day)	\$1,000	\$0	Broker worked with consignee to handle as a "work in" (broker was able to show proof that the load was, in fact, not late)
Layover cost while waiting overnight for new delivery instructions, plus re-delivery charge to warehouse	\$450	\$200	Extra costs are limited to driver wait time
No new appointment time available for 2 days, resulting in costs of local warehousing	\$500	\$0	Avoided
Re-delivery cost from warehouse to receiver	\$700	\$0	Avoided
<b>Time costs</b>			
Time costs for shipper's team to troubleshoot the problem after hours	\$500	\$0	Added time costs absorbed by broker
<b>Total</b>	<b>\$3,150</b>	<b>\$200</b>	
	<b>Costs avoided: \$2,950</b>		



# Choosing the low price carrier could actually *increase* your costs

If rate shopping is a prime strategy for how you select carriers and freight brokers, it would be rare if examples similar to the ones outlined didn't happen on a consistent basis. Providers who know your priority is cheaper rates may be cutting corners and delivering services to match the rates.

Let's face it, there is no way to accurately quantify the cost of shipping mistakes. The variables – of mistakes, and the fallout from these mistakes – are endless.

But the 3 examples used are real and not at all unusual. **Averaging out the costs for all 3 comes out to \$2,742 per incident in avoidable costs.** And that doesn't include the larger costs of production lines shutting down, lost retail sales, or losing a customer altogether – the most drastic financial consequence of all.

Consider a company moving 100 truckload shipments per month, spending \$900,000 per year and always using the low price provider. If a rate-shopping strategy meant you incurred incremental mistake-related costs on just 5% of

your shipments – costs that could have been avoided through the use of a more reliable shipping partner – then that would equate to \$13,710 in added monthly costs, or \$164,520 a year.

***Persistent shipping mistakes can lead to the loss of a customer – the most devastating financial consequence of all.***

**This company's yearly carrier spend is \$900,000, but its actual spend, including the cost of cleaning up shipping mistakes, is \$1,064,520 – an 18% increase.**

# Hidden costs persist and grow if mistakes are not corrected

They say if you don't learn from your mistakes you are doomed to repeat them. In freight transportation, repeated performance errors turn an occasional cost hit into persistent time and profit drains.

The answer, of course, is to uncover the root causes of mistakes and change business processes to prevent future issues. But often these mistakes can fall through the cracks or aren't communicated up the ladder for analysis. Corporate freight departments are so lean that the focus of the internal team tends to be on fighting today's fire.

That's why choosing the right carrier partner is critical. A tactical partner is unlikely to invest time and resources in proactive prevention. In contrast, a strategic partner will take a

longer-term view and demonstrate their commitment by:

- Documenting the issue
- Meeting and/or talking with relevant people in the shipper's organization to identify problem triggers
- Recommending steps to minimize future errors and costs
- Following through to ensure actions are taken – in other words, acting as a true “accountability partner”

Shipping mistakes are not like passing bumps and bruises that heal with time and don't return. They are more like unseen tumors that, if unchecked, continue to drag down delivery and P&L performance.



# Bottom line: know your real costs

Buying transportation is like buying anything else – you get what you pay for. Should you be fighting to save every last penny per mile? Absolutely! But make sure that fair price is coupled with great service. If not, you could be chasing nickels at the expense of dollars.

Our examples show how poor carrier choice can add 18% more to your logistics operating expenses. You just don't realize it because these incremental costs are not being tallied and documented. Start measuring these hidden costs, and stop rewarding freight managers who lower carrier costs but actually drive up real costs to the company.

In the end, it comes down to the old question, "Who would you want next to you in the foxhole?"

Do you want the carrier or freight broker who delivers the most basic service at the cheapest rate, or one who knows your business, proactively solves problems, keeps you in the loop, and is accountable for delivery success regardless of the problems encountered?

If lowering costs is truly your objective, the answer is not only to fine tune your rate comparison sheet, but to also spend time forging partnerships with the preferred partners you want next to you in that foxhole.



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**1-800-693-9119**

[solutions@servicefreight.com](mailto:solutions@servicefreight.com)

[www.servicefreight.com](http://www.servicefreight.com)