An Acuitive Solutions white paper

5 Worst Practices for Managing Global Freight

Manual, paper-based processes drain efficiency and profits at large international shippers

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As supply chain professionals, we live in a world of unprecedented connectivity where partners collaborate seamlessly, in real time, to make faster, better decisions on production, inventory and shipping.

And then there is global freight management.

Here, clerks manually enter shipment data and that data gets shared, as emails, spreadsheets and shipping documents, among suppliers, freight forwarders, and carriers. It's an appallingly inefficient and inflexible process that needs fixing.

Technology exists to automate global freight management processes and allow dynamic decision making, but adoption has been slow. This is despite the fact that just 30% of Chief Supply Chain Officers feel their current approaches are adequate for the complexities of inbound global freight management (Aberdeen Group).

The cost of inaction is high – easily millions, even tens of millions, in bottom line impact for large shippers with sizable global freight spends.

This paper looks at the five worst practices contributing to this profit drain, and why companies struggle to shift to more efficient, technology-based alternatives for global freight management.

Worst Practice #1

Not using software to manage expedited freight

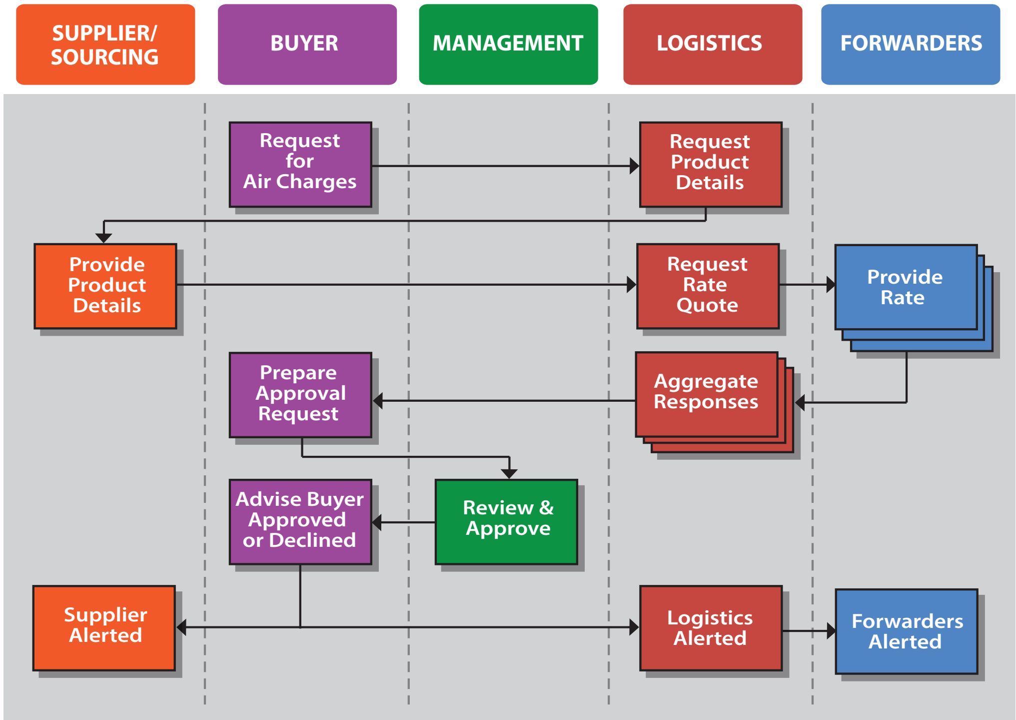
Air freight is about 20 times more expensive than ocean, so companies try to avoid it. When requisitions are made for software to manage air freight shipments, budget owners are conflicted. "Should we be investing to manage a mode we want to avoid?"

Well, yea. Here's why.

- **You are spending money on air, whether you like it or not.**
  Factories miss production deadlines, retailers move up requested arrival dates, weather patterns move up selling seasons. Stuff happens and you have to react. That reaction costs money – $10–$20 million a year in air freight spend for large companies. One global technology company spends $1 billion yearly on air freight. Pretty soon, you're talking about real money.

- **Current methods waste time, and dollars.**
  For expedited requests, it can take 3-5 days for a large company to make a decision. The diagram below shows a typical workflow. The less "expedited" the decision process, the less flexibility there is to use cheaper options such as deferred air.

Typical Approval Process for Expedited Shipment Requests



Worst Practice #1 (Continued)

- **Manual processes breed bad decisions.**
  When humans lack access to the actual delivery requirements of the business and the time and cost of various shipping options, decisions are driven more by emotion and they overspend.

  CASE IN POINT: A review of air shipments for one major fashion brand found that 3% of air shipments could have gone ocean and 4% was already late and destined for markdown, therefore air freight was unnecessary. If you pulled out that 7%, yearly freight costs would shrink by $1.5 million.

Companies who balk at investing in an air freight management system because they want to avoid air are like people who don't buy health insurance because they don't want to be sick.

Software exists to manage the process. If you spend at least $5 million on air freight, look to automate expedited routing decisions and introduce cost-saving controls. Today's systems are cloud-based, therefore carry little investment risk.

Worst Practice #2
Not having visibility to inbound air shipments

Let's face it, you're not shipping your junk via air. This is your most valuable stuff. But the advance SKU-level visibility you have to your ocean freight is absent from air shipments.

How crazy is that? You get weeks of visibility for low-value inventory, but you get the details on your air shipments only after the plane lands. That's because air forwarders' systems share SKU-level data *after the fact*. Solutions exist to give you the visibility you want, but it involves systemic integration with the freight forwarder. Shippers have hesitated to make that commitment because they don't want to lose price leverage.

Here's the deal. For ocean freight, 3PL consolidators are independent of the ocean contract. They don't care about what carriers you use, so they are a low-risk partner for systems integration and automation investments. As a result, shippers have SKU-level visibility to ocean freight from the time of booking. With air freight, the party you need to give you the data is the same one you use to move the freight, so integrating your two systems is basically a commitment to move the freight with them. That equates to leverage for the carrier and eventual price increases.

The solution to this dilemma is a cloud-based platform that can give you visibility without losing price leverage. Global transportation management systems (TMS) have been developed that allow suppliers, forwarders and carriers to access data and record events as they happen. Shippers who once received SKU details on inbounds just 2-3 days before the product hit the DC could have as much as 10 days advance visibility.

Worst Practice #3
Using static routing guides for expedited shipments

Static routing guides tell overseas suppliers how to route freight. Because these guides can't consider the multitude of if/then variables that drive international routing decisions, the documents are dumbed down and two-dimensional.

They will tell a supplier to use forwarder A if freight ships Hong Kong to NYC and forwarder B if it ships Shanghai to LA, but it won't address the specific service to choose. It's basically air or ocean. That's like walking into a Ben & Jerry's and having a choice of only vanilla or chocolate. With static routing guides, you lose the ability to align the service with the actual business need.

CASE IN POINT: A factory delay may bump a shipment from ocean to air. For many companies that means costly standard air. But if the factory is only one week late, you don't need to go from a 40-day ocean transit to 10-day standard air. You can book deferred air service and save at least 5%. But when static routing guides dictate the routing, shippers are not involved at the hand-off between the supplier and the freight forwarder. They have no control and no ability to dictate the service level.

Today's modern solutions put an end to static routing guides by creating an interactive portal that gives shippers the ability to make dynamic routing decisions up to the last minute.

These platforms are rules-based and highly configurable, so shippers are able to program the system to account for a range of different scenarios. For instance, when a supplier alerts the shipper, via the portal, that a P.O. will be ready to ship next Tuesday, the system automatically compares that ship date with the required arrival data and routes it in the most economical way. Smart systems allow all this to happen without any manual intervention by the shipper.

Worst Practice #4
Doing air and ocean freight bill audits manually

Air and ocean freight audits are fragmented, laborious processes.

The process starts tamely enough with verification that the invoiced dollar amounts are correct. But Finance can't just pay the bill, they have to account for the expense. That's when the trouble begins.

With international, you could have multiple bills of lading (BOLs) per container and multiple P.O.s per BOL…and the information on the BOL may not be linked to the P.O. so someone must refer back to the manifest...and then determine what percentage of the freight should be assigned to each P.O....and assign a GL code to each P.O.…and manually key in the data…

Yikes.

The process is like divvying up a restaurant bill evenly between four families when everyone has eaten different things. Now multiply that by your own annual freight bill volume and you get a flavor for the challenge that manual global freight bill audits pose to finance teams.

A better way is to leverage new platforms for managing global freight audits. These collaborative platforms receive data inputs from carriers, 3PLs and forwarders, and then automatically validate the correct invoices and isolate discrepancies. Some solutions combine this technology platform with efficient resources to manage the exceptions. In such cases, you, as the shipper, receive a 100% audit solution while getting involved in less than 1% of transactions.

CASE IN POINT: A consumer product company, America's 28th largest importer, invested in a global TMS from Acuitive Solutions to manage pre-payment invoice audit for 35,000 annual ocean containers. The company estimates a hundred-fold payback on the software investment based on an ability to free up and redeploy valuable staff resources.

Worst Practice #5

Not allocating freight costs to the P.O. level

It remains common practice to pay freight bills without allocating costs to a P.O. This eliminates any accountability for freight choices – particularly for the use of costly air freight. No system means no control.

Buyers like the freedom to ship air when they want. CFOs, on the other hand, hate when freight decisions are driven by emotion and not data-validated timing concerns.

You want these costs to hit the buyer's margin. Unless buyers know they may need to explain this expense, they will make emotional decisions on expedites. Specialized global TMS systems take this choice out of buyers' hands by making this cost allocation part of the automated workflow.

Tame the chaos of inbound global freight management

The sheer complexity of international freight has made it difficult to automate a labor-intensive process that, for years, has relied upon static documents and redundant data entry.

Difficult, but not impossible.

The newest global TMS solutions are designed for today's complex supply chains, using cloud-based platforms where partners can access a common database and collaborate on process execution. They replace manual steps with rules-based workflows that automatically rate, route and audit air and ocean shipments faster, with less people.

Inbound global shipment management is highly complex, for sure. But that's not a reason to avoid technology-based solutions that automate processes. It's a reason to embrace them.

The author, Phil Marlowe, is President at Acuitive Solutions. Acuitive offers a cloud-based global TMS that makes it easier for large companies to manage inbound global freight moves. Acuitive's rules-based portal lets carriers and suppliers collaborate to manage air and ocean shipments and audits with almost no direct shipper involvement.

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