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Rome Transportation Inc – White Paper Series

The End of Pre-paid Freight?

Collaboratively Written by the Rome Management Team

The End of Prepaid Freight?

When thinking about your freight cost, it is easy to quickly become overwhelmed by the many facets that you need to consider; the cost of packing, palletizing, documentation, loading, unloading, transport, insurance – the list goes on and on. Without the proper knowledge and tools, freight cost can be extremely expensive, as well as overwhelming. This paper intends to address the issues that surround freight cost, from how it is incorporated into the cost of the product being shipped, to how freight cost can be reorganized in order to save the purchaser valuable time and money. It is commonplace that many companies will allow their supplies to build the cost of the freight into the price of their products. The customer in this case would simply issue a purchase order and wait for the freight to arrive from the supplier. This paper asks the question, is this in the best interest of the company purchasing the product?

Many of the individuals who allow their suppliers to "cover the freight cost" fall victim to a general assumption that this is likely going to be the cheapest (or close to the cheapest) method of shipping. The unfortunate reality is that this is often, not the case. It is important to keep in mind that from a vendor/supplier's perspective, providing freight services to clients is a value-added service which incurs costs to the supplier. Said "value-added service" is most often not a core competency of the shippers. This leads to efficiencies which are not ideal, higher costs, and an opportunity for your supplied to build in a certain amount of margin to the shipper costs in the hopes of increasing profitability. Pair this with the fact that your supplied is essentially a monopoly supplier; the shipping costs that the purchases pays for could be fairly inflated without their knowledge. This is the easiest way for a supplier to hide and mask the extra costs, working it into the overall price of a product at the end of the transaction. Unfortunately, it also tends to increase transit time and reduce the supply chain's visibility.

Another common assumption is that the supplier/purchaser "work-in" method will be the easiest and most efficient way of shipping the freight. From the perspective of the purchaser, it can look like this is the easiest option, but it is vital to consider that while the supplier likely has good intention to keep their customer happy, their core focus will always be on profitability. As many have seen before, the supplied tends to pursue a cost-effective method, building their margin into the freight cost. In the end, this can have a drastically negative impact on service and transit times. The abilities of the supplier to evaluate all angles of the shipment from the end customer perspective is inherently but understandably lacking, because the focus is on completing the transaction, getting the freight out, and maximizing their profit. This impact this has on the end customer is most prevalently portrayed in a shipping schedule that can take significantly longer than expected, but also appears as a lack of certainty when it comes to tracking, tracing, and an overall disconnect between the truck driver, and the end receiver.

From a purchaser's perspective, there is evidently a need for an alternative way to handle the freight of incoming products purchased – a process which keeps service levels at the customers' desired level while still reducing and then maintaining the costs. This is where a third-party logistics provider (3PL) can come in to play. It is worth noting that a vast majority of suppliers already one or more 3PLs to ship their freight – something usually unbeknownst to the end receiver. Even those suppliers and purchasers who do not wish to commit to using one 3PL, use 3PLs as a resource for the information they provide with regards to prices and capacity on specific shipping lanes. Utilizing a 3PL often results in several benefits, such as cost savings and service quality increases, but as always, an additional insight into what your freight should cost to ship.

Part of this cost saving is a result of removing an intermediary from the price of your shipping. Another part of the savings can be credited to having more control over what level of service you need for your shipment. A reputable 3PL will be able to provide a price breakdown of any given shipping lane and shipment as it pertains to transit times, pick up windows, and availability. With this knowledge in the hands of the purchaser of the product, he or she becomes better able to price, trace, and plan for a shipment with increased efficiency and effectiveness. As outlined here, the value added to the transaction by a 3PL from a purchaser's perspective is blatantly evident – the result is increased control, increased visibility, reduced work and the opportunity for reduced overall cost.