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RETHINK YOUR SUPPLY CHAIN

Article

6 Steps to a More Aggressive Freight Conversion Program

Over the past twenty years, transportation management has grown and shifted from a tactical shipping function to a strategic differentiator. This differentiation extends beyond customer service levels and indirect sales impact, to in hard freight margin dollars. Now commonplace, freight conversion programs bring more freight under management wherever possible and profitable. Logistics revenue growth is the focus of year-over-year targets, and freight margin and percentage of freight under management are key indicators of performance.

The history of logistics as a cost center has created a peculiar, imbalanced environment, in which far more technology and technique is brought to the management of costs than to the growth of revenue. Sophisticated optimization applications and carrier sourcing tools are leveraged to manage bottom line costs; however, these platforms leave freight revenue and expected savings out of the mix.

Take advantage of this unique opportunity to be more aggressive about freight conversion programs. Here are six ways that the right technology can accelerate and maximize freight revenue growth and profitability:

1. **Store it in the contract**

   Collect and document freight allowances at the time of contracting item prices with a supplier. This is facilitated through the use of a contract price management platform built to break delivered pricing into FOB origin, freight and fuel components. As price changes occure, freight allowance changes will be tracked.

2. **Focus your efforts**

   Focus efforts on the freight lanes with the highest potential. Create a consolidated view of lanes that fit within the current managed inbound freight network. This includes identifying the supplier's processes for customer pickup, current and future volumes and freight allowances. Refreshable reporting will highlight the right lanes to pursue and convert into a freight program. Additionally, this information can provide a more accurate ongoing measurement of the overall revenue growth, and help set useful targets for revenue and freight under management.

3. **Leverage your network**

   Freight conversion is based on the ability to manage freight costs more effectively than suppliers. This means more than leveraging purchasing power to drive down carrier rates. It involves building consolidated shipments across suppliers, shifting smaller shipments from LTL to Truckload, and driving higher trailer utilization on current truckload freight. Network optimization that considers both order pattern changes and route consolidations simultaneously will expose more opportunities. Advanced technology identifies opportunities to scale down truckload moves to more frequent orders, in order to consolidate expensive infrequent LTL shipments. Such strategic planning can significantly raise freight revenue.

4. **Manage the workflow**

   Establish a standardized workflow that assigns roles and responsibilities and provides visibility to potential pitfalls. Technology that presents users with timelines to completion, reports on bottlenecks and manages volumes to people, ensures expediency to increasing freight revenues. Workflow applications identify the priorities for data collection, rate verification, communication and activation of new freight lanes.

5. **Monitor and correct**

   Once freight has been successfully brought under management, it is imperative to tightly manage the margin – not just the cost - of freight lanes throughout their active life. A reporting system that highlights margin shortfalls is a critical asset in sustaining freight profits.

   Identified issues should follow a similar workflow as conversion opportunities. Addressing negative margin lanes due to cost fluctuations is not enough; the real opportunities lie in continuous reassessment of replenishment and routing patterns to consolidate similar freight lanes for higher revenue gains.

6. **Understand your revenue**

   Profit transparency is the differentiator between strategic logistics planning versus reactionary processes. Utilizing reporting to identify the multitude of changing revenue and cost drivers provides direction for corrective action. Margin erosion occurs when suppliers are replaced, demand fluctuates, freight allowances change, or lanes become unmanaged; however these factors can slip notice when reviewing summary level shipment detail. An overall network revenue strategy allows for proactive planning to protect inbound freight income.