

Inbound Transportation:

Today's top management is focusing on this key cost reduction opportunity on the procurement side of supply chain management.

Virtually all businesses today face a significant challenge in company transportation, both from a cost and capacity standpoint. Fuel costs and driver availability are two issues that are driving focus and management attention to this key business function.

However, one of the areas where significant business dollars are spent is *inbound transportation*. This area has long been the domain of the procurement function with purchasing managers focusing on:

- Total product cost by vendor
- Delivery timing and service.

In addition, production facilities and their management are more concerned with:

- Material availability to maintain production schedules
- Minimum plant raw material and supply inventories.

These factors often lead to added costs in transportation related to:

- Sourcing locations
- Minimum shipment sizes
- Delivered unit pricing
- Shipment routing
- Required service levels.

The three key leverage points of inbound transportation deal with:

1. Volume per transaction in terms of buying larger amounts of product per transaction in order to get the best transportation rate.
2. Consolidation of carriers and movements in order to gain the best rate possible through negotiations with transportation companies
3. Service requirements in terms of lead times and delivery requirements related to specific times and/or expedited movements for shorter cycle times.

Corporate culture plays a significant role in the effectiveness of reducing inbound transportation costs. Achieving results requires a great deal of cooperation across organization structures and functions within the company. Both transportation and procurement

organizations must work closely together to achieve maximum results. *It does not matter who gets the credit. The business in total gets the resulting savings.*

Managing the Inbound Supply Line

To reduce inbound transportation costs, procurement and transportation managers must meet frequently to review and/or revise:

- Open and planned purchase orders
- Inbound and outbound transportation patterns/activities
- Key traffic lanes
- Load sizes
- Pallet programs
- Consolidation potential
- Other related sourcing issues.

In 2006, a multi-billion dollar food company launched an inbound transportation program effort with the help of consulting firm REM Associates, Inc. of Princeton, NJ. Initial program efforts resulted in:

***Savings:
in excess of \$10 million
in 9 months.***

At the same time, service levels for inbound vendor receipts increased and inventory on hand to support production scheduling improved, as did production scheduling and operations.

The result of the inbound transportation program effort reduced landed cost of purchases, which allows the company to reduce overall product costs and related plant inventory levels.

With the transportation functions of the supply chain working closely with the purchasing functions, the company was able to:

- Reduce cost of purchases
- Improve vendor service levels
- Reduce inventory levels
- Improve production schedules and operations.



Strong partnershiping with carriers is a fundamental principle to effecting changes that will produce substantial savings in inbound freight costs.

A unified approach is key

The natural focus of purchasing is on competitive sources of supply - vendors, lower unit costs, more material choices, and shorter cycle times.

As one company operations executive said, "Our goals are to be the highest quality, lowest cost supplier to the mass market, to generate increasing cash flow from sourcing operations, and to focus on the vendors and the products where we can achieve the lowest total landed costs."

With REM's help, companies have analyzed sourcing, transportation, and related processes and identified potential cost reduction opportunities. In addition, they profiled vendors and ranked them finding the top 15-20 percent that represent 80-85 percent of the procurement dollars. They then looked at the transportation lanes and found a significant number of lanes that crisscrossed major transportation corridors for outbound transportation to customers as well as inbound from vendors.

A senior business executive said, "As a result of implemented improvements, we're seeing greater efficiencies, which put us in a more competitive cost position. We achieved improved vendor service at lower costs. In fact, the personality of the company has changed with more cross-functional cooperation."

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