

The Value of Transportation Audits

Getting an outside expert's perspective can
yield opportunities to improve service and
drive cost savings of 5% to 25%



Auditing your freight operation

The importance of regular “check-ups”

Nothing is more important than our physical health, yet people regularly avoid doctor visits. Among the top reasons:

- ***I don't have time*** (no surprise, the top reason)
- ***Nothing's wrong***
- ***No one's bugging me, so I'll put it off***

When it comes to your supply chain, the health of your freight transportation operation is pretty important. Customer satisfaction hinges on a well-oiled operation, and it eats up the largest chunk of your logistics budget. Still, companies avoid transportation “check-ups” for many of the same reasons people avoid the doctor.

Transportation audits, or assessments, essentially pull apart a transportation operation and put it back together in the right way. What falls out is the opportunity. Typically, audits pinpoint numerous opportunities to improve service and identify potential freight cost savings of 5% to 25%.

With transportation audits, as with health check-ups, unless you ask the questions and run the right tests and analyses, you simply don't know. And that lack of knowledge can and should be unsettling – particularly if you are relatively new to an organization and don't know how you “stack up” relative to competitors or best-in-class operators.

***“Transportation audits
can identify savings
of 5% to 25%”***

What you *don't know* can hurt you

“Do we need a transportation management system?”

“Are we paying too much?”

“Why do transportation costs keep going up?”

“Do we need all these people?”

Over-the-road transportation accounts for 47% of a company's total logistics spend, according to CSCMP's latest State of Logistics Report. That makes it a hot button issue with c-level executives.

Sooner or later, they'll begin asking questions like the ones above.

When they do, you'll want to have the answers.

Transportation audits provide guidance on both strategic and tactical issues related to freight transportation. They can help you articulate a very clear vision to your company about where you are today with your freight program, where you need to be to support profitable growth, and how to get there.

What's included in a transportation audit?

Transportation audits involve a comprehensive analysis of every element of your freight operation. Questions an audit would address include:

- Can you hit **service level targets** with your current distribution network?
- Are you using **carriers** that offer the best service at the best rate?
- How do your **staffing levels** compare with those of similar-sized companies?
- Do you have the **correct personnel** in place to take you into the future?
- Can you **lower your freight rates**?
- Do you have the appropriate **technology** employed to optimize freight movements and capture data?
- Can your current program **support future growth**?

The following pages explain the different components of the transportation audit, shown in the diagram to the right.



People

You can have the vision, the strategy, the systems, the processes and the determination, but if you don't have the people on your team to make it happen, your transportation operation will fall short of your expectations.

That's why it's so important to continuously assess your talent and add or replace as needed.

These are tough decisions, and it's hard to be objective in assessing the capabilities of people you work with every day.

That's why it helps to have an outside transportation expert come in to assist with these evaluations.

They can tell the difference between managers with 10 years of experience and those with 1 year of experience – repeated 10 times. They can also benchmark your staffing levels and determine if automation or process changes can reduce manpower.

Some of the people-related questions an audit can address

- Is staff constantly seeking new and better approaches, or have they become complacent?
- Can your staff take you to the next level of quality and efficiency?
- Are your salaries in line with the industry average for specific functions?
- How should you manage younger staff members differently to maximize performance and retention?

Freight Strategies

*Pool distribution... mode shifting...
consolidation... route optimization...
dedicated fleet....*

There are many strategies you can employ to drive time and cost out of your supply chain. Audits are designed to determine what strategies might be right for your freight and how to implement them.

For instance, many companies have benefited from shifting a portion of their freight from truck to rail. But determining the logic of such a move requires careful analysis to determine service level implications.

Many companies miss such opportunities because they don't have the systems to compare carrier rates and service levels. Or, they have an outdated perception of intermodal freight.

An audit brings both the systems and the transportation expertise to bear in order to uncover efficiency-driving strategies.

Some of the strategy-related questions an audit can address

- Does your service match your customers' expectations?
- What are the cost implications of better service?
- Should you switch modes or carriers?
- Is intermodal a good strategy for your company?
- Is your routing guide being followed?
- Do you really need to own trucks?

Carrier Selection and Rates

Without a solid understanding of the market, it's hard to know which carriers are best for certain lanes. An audit can do that. Here are a few examples:

- A medical device company partnered with a truckload carrier that had very competitive rates across many lanes, but had high rates on certain lanes where its volumes were low. An audit identified these high-cost lanes and recommended other carriers who truly wanted that business.
- A pharmaceutical company that required cold chain deliveries paid a premium to work with a well-known, national carrier. But a transportation audit discovered that using high-quality regional and niche carriers for certain lanes saved hundreds of thousands of dollars.

Most companies feel they stay on top of freight rates and push carriers for the best deals. An audit turns that subjective assessment into an objective comparison of your rates against others. The results can be eye-opening. The audit team will dig deep to determine how your freight looks to specific carriers based on density, distance, value and location.

There is no way to uncover these opportunities other than getting into the weeds and doing the analysis.

Some of the carrier-related questions an audit can address

- What is your carrier mix and does it fit your economic and service goals?
- Do you review your routing guide on an annual or semi-annual basis?
- When is the last time you changed carriers?
- Can you improve cost and performance through cross-mode and cross-service opportunities?
- Are your customers happy with your current carriers?

Systems and Processes

Supply chain and transportation executives simply must know what technology and supply chain software can do for their companies. But who has the time to stay abreast of the latest technology advances? The right freight transportation consultant has this knowledge and can help you determine how technology can be leveraged to manage freight more efficiently.

Audits are not always about recommending systems that require substantial investment. They can be a check against planned investments. For instance, your decision to invest in a multi-million dollar transportation management system may not make sense if your primary modes are small package and LTL, in which case a less expensive, more targeted solution would suffice.

An audit will also look carefully at your processes – what systems they leverage, how long they take and how many people are required for the task. Your system may allow you to manage a particular function, such as tendering a bill of lading, but if it takes many people stuck in the “old” way and the process is fraught with errors because clerks are manually entering data, the system is actually undermining your efficiency.

Some of the systems-related questions an audit can address

- How much time do staff members spend on specific tasks and could these processes be automated?
- What could a TMS do for your operation? Does it make economic sense?
- What kind of automation makes sense for your operation?
- Is your back office operation efficient?
- What gaps exist between the functionality your business requires and the ability of your systems to provide this functionality?

Freight Invoice Auditing

Despite the potential to save money by auditing freight invoices, such auditing is not done at all at one-third of the companies that use transportation carriers. For the companies that use outside auditing firms, they often pay more than they get back in carrier credits.

Finding the right freight bill audit partner is key.

Almost all firms will say they can audit all types of invoices, and most do a credible job with LTL and TL shipments. But for other modes of transportation (ocean freight, rail, intermodal, dedicated fleets, parcel), only a few firms excel because of the detailed knowledge and technical tools required to do an effective job.

The experts conducting your transportation audit should be able to direct you to freight audit and payment firms that will pay for themselves.

You don't necessarily want the cheapest service in terms of cost per audited invoice. You want providers whose audit costs are consistently less than identified overpayments.

Some freight invoice auditing questions a transportation audit will address

- How much money can be recouped by improving your freight bill audit process?
- How can you leverage available technology in ways that drive value?
- How can detailed reporting help you identify areas where freight expenses can be reduced?
- What is your auditing return on investment?

Reporting

Just about every corporate transportation operation can identify its key objectives. But a surprising number do not have KPIs related to these objectives and specific reports designed to provide constant feedback on progress.

A transportation audit partner can help create the right set of KPIs and work with your team to design reports that provide the data you need to monitor performance, make strategic decisions and report on progress to senior management.

Robust reporting is not only critical to managing the operation, it can come in handy when you get that surprise question from your boss, such as *“What’s the cost of fuel versus our total freight spend?”* or *“Why are we over budget?”* The answers can, and should, be just a few mouse clicks away.

Fast, flexible reporting will only become more important as key management positions are filled by Millennials, who have the appetite and expectation for detailed, easy-to-read reports.

Some reporting-related questions a transportation audit can address

- Can you drill down to each cost in your transportation expense?
- How well do your KPIs track with the broad goals of company?
- Are you getting delivery feeds on service (PODs).
- Do you have KPIs and reports for each key transportation objective?
- How can reports help you manage your budget?

Transportation Audits: *The Right Partner is Key*

A transportation audit can lead to substantial savings and insight. But it is not a quick fix. The process is comprehensive and a typical audit will take between 8 to 12 weeks, depending on the complexity of your freight program.

It will be a hands-on process for you and your team since the audit consultant will need access to detailed information from your systems. But in the end it will be worth it. Expect recommendations that yield service improvements of 5% - 10% and cost savings from 5% - 25%.

The final deliverable is a detailed audit report with actionable recommendations aimed at improving your shipping performance and efficiency. The report should provide the detail behind the recommendations, so you have the hard data you need to defend suggested changes within your company.

The right partner won't just report on what they see, they will challenge every aspect of your program, including why and how you execute certain functions.

Other things you should look for in a transportation audit partner include a broad knowledge of transportation across all modes and job functions and access to objective industry benchmarks for rates, shipping performance, and staffing.

If you need to understand how well your organization is positioned to support your company's supply chain, today and tomorrow, a transportation audit is a very efficient way to get the answers you need.

“Transportation audits can reduce freight costs of 5% to 25%”

About the author

Giles Taylor is founder and president of Trans-solutions – a transportation consulting company that helps businesses make critical freight management decisions that result in savings of 5%–25%. The company delivers precise, objective answers to real-world logistics challenges based on a fact-based, numbers-driven approach.

His clients include companies, large and small, from a variety of industries, including pharmaceutical, medical device, specialty retailers, e-tailers, wholesalers, and consumer goods.

Trans-solutions' transportation audit service is a comprehensive evaluation of a company's transportation program. The objective: identify opportunities to improve service and drive cost savings. Trans-solutions has completed dozens of transportation audits that have saved companies more than \$150 million.



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