

## Getting a Handle on Expedited Freight

### Step One – Actually Track It, Says AMR’s Greg Aimi; Root Cause Analysis is Key Next Step, Even if Logistics Organization Rarely is the Bad Guy

SCDigest Editorial Staff

As companies look for ways to trim supply chain and logistics costs, one area that tends to receive scant attention is rush and expedited freight.

In many companies, the total cost for shipping goods at premium rates for any number of operational reasons can be substantial. Those reasons include problems in the global supply chain, bad forecasts, missed supply or demand signals, and a myriad of other factors.

Of course, it is an “emergency” of one kind or another that causes the need for expedited freight. Forecast errors.... production issues...problems coordinating with offshore suppliers...inventory in the wrong place – these and countless other reasons lead to the need to move freight via a more expensive mode than should normally be the case. And like most emergencies, cost suddenly becomes a very secondary consideration.

“No one ever calls for an ambulance and asks, “How much?” When a shipment needs to be expedited, this same principle seemingly holds true,” says **Greg Aimi** of AMR Research. “Urgency becomes the ultimate priority, with the cost factors and other transportation metrics apparently going out the window.”

In fact, he says, most companies have a set of business rules where the first carrier that can get the shipment there on time is selected, regardless of price. While that may be a good decision versus the cost of not getting the shipment there (such as lack of a part causing a manufacturing line to shut down), it still can lead to a lot of transportation cost that potentially could be reduced.

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Aimi says that relatively few companies he speaks with can readily cite a number about how much they actually spend on expedited freight (e.g., air charter, air cargo, “hot-shot” trucks, air over rail, etc.).

Aimi notes that expedited freight is not only expensive in raw transportation costs, it is also high cost in terms of the process, which typically involves manually-intensive carrier searches, phone calls, faxes, etc. to secure a carrier and ensure it can meet the urgent delivery parameters, plus lots of tracking as the shipment is in route.

#### **How Many Companies Even Keep Score?**

Many companies know intuitively that they are spending more than they should on expedited freight, but how many really maintain an accurate scorecard?

Even if they do, it is often simply to have back-up

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to support budget-busting cost overruns as a result of expedited freight levels.

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Aimi asks a very savvy question: Why is this most expensive of freight often the least well managed?

### What is the Right Level of Expedited Freight?

In general, expedited freight indicates something went wrong in manufacturing, forecasting, supplier management, etc.

Therefore, many companies do not budget for expedited freight, as doing so seems to accept imperfect supply chain performance.

Aimi, however, says AMR Research has spoken with a number of companies that have become supply chain realists. Through historical analysis, these companies determine that inevitably some percentage of shipments will require expedited shipping. In fact, in Lean supply chains, expedited freight at some level may be a natural and very acceptable cost that comes with pushing inventories down to a minimum. However, these companies also want to gain control over this high-spend category.

The key issues then soon become:

- What is really an acceptable level of expe-

ditated freight?

- How can companies accurately collect data on the underlying causal factors? Was the expedited move simply the result of unexpected surging demand (a good thing) or issues with manufacturing planning or purchasing execution?

For many companies, these are truly "million dollar" questions.

Most traditional Transportation Management Systems (TMS) are not well designed out of the box to track and optimize, through a controlled bidding process, expedited freight spend. Many of these systems could be tweaked to do so, if the companies put in the effort to make it work. Aimi also says some specialty on-line vendors, such as **Active On-Demand**, are coming to market to help companies deal with problem.

But the bottom line remains that for many companies, there are significant opportunities to reduce expedited freight costs – even if the solutions are often outside of the direct control of the logistics organization.

"Unplanned or expedited freight is a reality in today's supply chains," Aimi says. "Don't leave to chance how you manage it or what you pay for it. Gain control over the process and centralize the knowledge of where, when, and why your company needs to expedite shipments. Perform causal analysis and work to reduce the actual amount of unplanned freight before it happens."

