



? Situation

Your data has identified an opportunity that contains High Freight Costs, so what do you do next? In many businesses, Freight Costs typically fall in the 1 - 10% of Invoice Price range, and variation in customer specific levels generally creates a drag on margin. Freight Costs have continued to be a source of margin leakage in recent years and generally result from some or all of the following circumstances:

- Rising fuel costs affect various Freight Methods.
- Surcharges and prices are not adjusted enough to recover rising costs.
- Inefficient logistics exist in particular regions, plants, or distribution centers.
- Special customer requirements result from order requirements, such as rush or small orders.

This paper provides recommendations on how to deal with High Freight Costs. Freight Costs may be synonymous with Shipping or Transportation Costs in your data model.

✓ Recommendations

High Freight Costs can be remedied in the following ways:

- Reduce the root cause of High Freight Costs
- Close the Gap on High Freight Costs

Reduce the Root Cause of High Freight Costs

While members of Commercial Operations teams would not normally be expected to hedge Fuel Futures or think through sophisticated delivery logistics, there may be ways that you can reduce some of the root causes of High Freight Costs.

Condition	Action
Ship-to Customer with High Freight Costs	<input type="checkbox"/> Ask the following questions, and see if you can negotiate better terms with your customer in exchange for other concessions: <ul style="list-style-type: none">• Does the customer place a large number of small orders?• Does the customer place a large number of rush orders?• Is there a bad Ship-to location for a particular customer that you might be able to consolidate into a different location?
Plant/Distribution Center to Ship-to Customer with High Freight Costs	<input type="checkbox"/> Ask the following question and see if you can negotiate better terms with the customer: <ul style="list-style-type: none">• Are there other opportunities to ship from a closer Plant or Distribution Center?
Region with High Freight Costs	<input type="checkbox"/> Evaluate whether to service this region and how, consider shipping only on specific days and by certain Freight Methods. <input type="checkbox"/> Explore ways to consolidate shipments to this region across multiple customers.

Close the Gap on High Freight Costs

For the Commercial Operations Team, closing the gap on High Freight Costs is generally an easier task to tackle. These recommendations are generally dictated by business practices.

Condition	Action
Freight Charges are an industry practice or have already been assessed to this customer	<ol style="list-style-type: none">1. Create and focus on the metric Freight Recovery% (Freight Charge/Freight Cost).2. Classify Customers by Quintile from large (A) to small (E).3. Establish Target Freight Recoveries by Customer Class policy.4. Move this customer's Freight Recovery to policy levels.
Freight Charges are not a common industry practice or are not contractually allowed for this customer	<ol style="list-style-type: none">1. Create and focus on the metric Freight Absorption% (Freight Cost/Invoice Price).2. Classify Customers by Quintile from large (A) to small (E).3. Establish Target Freight Absorptions by Customer Class policy.4. Move this customer's Freight Absorptions to policy levels.