

Transport Cost Reduction Methods

Transport and distribution are the circulatory system of any business, with direct implications in supplier performance to customers, being some of the critical points in Logistics and are some of the measurable indicators which show the ability of a supplier to render quality and competitive services.

Transport costs take 5-10% from the capital circulated by a company meaning they have an important impact on the final profitability of the products and services sold. From this amount, for road transports, the expenses divide into: fuel 40%, personnel 15-20%, taxes 10-15% and carrier profit 25-35%. Based on this percentage split we can understand that carrier selection process weighs very much into the final transport cost. Remember: a low price does not mean a low cost!

From operational point of view there are several possibilities to reduce transport costs – some methods below:

- ❖ Evaluation of the volumes of the transported materials (minimum ordering quantities, maximum ordered quantities)
- ❖ Evaluation of transit and delivery times (finding the areas in transport which are time consuming – loading, unloading, transfers, customs formalities)
- ❖ Calculations for intermediary warehouse solution
- ❖ Calculations for consignment stock solution
- ❖ Evaluation and definition of shipment fulfillment KPI
- ❖ Milk-run evaluation (low volumes, multiple delivery points per shipment, increased delivery frequency)
- ❖ Financial evaluation for externalization of transport (including transfer of transport cost to supplier/customer included in selling price of materials)

A special case in evaluating transport costs reduction is sea shipments (needs to be evaluated the type of container used – volume versus weight of the goods sent)

Another important evaluation of the transport costs is checking the contracts signed with suppliers or customer for special transports (urgent couriers and air shipments) which are very expensive – clear definition of Force Majeur in contracts and measurable and transparent responsibility when organizing a special transport.

