

SEIZE THE MOMENT

Shippers must take this opportunity to address freight fundamentals

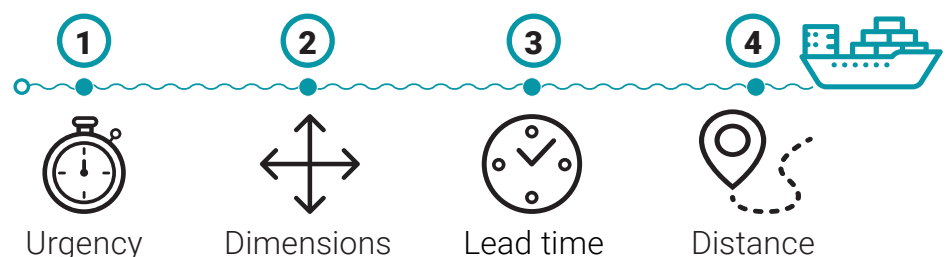
Roughly once every decade, massive disruption in the transportation and logistics marketplace makes front-page news. This is one of those years. **Make the most of it.**

Ocean freight rates are at historic highs driven by supply-demand imbalances. Port congestion and container shortages have added insult to injury. Airfreight rates have been volatile, but trending much higher overall, since the early days of the COVID-19 pandemic. Domestic US transportation markets are hot, leading carriers to inundate their customers with general rate increases and surcharges. In short, 2021 is the year that freight rates for all modes of transportation have soared far above pre-pandemic levels. Those rates will likely stay that way through the middle of 2021.

In a less anomalous year, a significant increase in freight expenses would send shippers to their freight-procurement battle stations. Their logisticians would benchmark lane rates, consolidate spend, issue multi-round RFPs to large pools of potential providers, identify carriers hungry for volume at discount prices, negotiate hard on rates and surcharges. There's a lot to be said for the effectiveness of those tried-and-true freight procurement strategies, and shippers should certainly continue to fight the good fight.

But 2021 is different. Shippers need to think hard about—and seize the opportunity to address—the fundamental drivers of freight expense. Take this once-a-decade opportunity to address the underlying conditions, not just treat the symptoms of freight cost inflation.

FREIGHT EXPENSES ARE DRIVEN BY FOUR FUNDAMENTAL CHARACTERISTICS OF A SHIPMENT:







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A considered, intentional approach to optimizing those four drivers will help shippers mitigate—even reduce—exploding freight expenses in 2021. But bear in mind that logisticians rarely control all the decisions that drive the underlying fundamentals of freight shipments. Commercial decisions on customer service levels often dictate speed, dimensions, and lead times. Procurement and/or manufacturing decisions dictate key elements such as distance and lead time. Demand and supply forecasts can be inaccurate and require expedited freight to compensate.

All the same, never let a good market dislocation go to waste. Seize the opportunity to make some tough—and likely overdue—decisions, all in the name of mitigating runaway freight expenses. Drawing on what we have learned from scores of client engagements that involved grappling with the four fundamental drivers, we believe that shippers, whatever their business, have a range of opportunities to bring costs into line.

EXHIBIT: THE SHIPPER'S COST-CONTROL TOOLKIT

COST DRIVER	POTENTIAL ACTIONS	TIME-TO-VALUE
 URGENCY	Create process controls that prevent expedited freight without proper approvals and accountabilities	Days
	Reduce service level expectations to allow for longer transits	Weeks – can be temporary and reversed post-crisis if necessary
	Leverage consolidation services that trade off transit time for cost savings	
	Tackle and eliminate upstream root causes that cause expedited freight	Months
 DIMENSIONS	Measure utilization (weight/cube) – assign ownership and accountability	Days
	Eliminate wasted space (cube) driven by excessive or inefficient packaging or load configurations	Weeks
	Adjust minimum order quantities to drive improved utilization (weight/cube)	
 LEAD TIME	Create process controls that require ample lead time for carrier bookings/tendering	Days
	Communicate needs for freight capacity to carriers at the most specific level possible	Weeks
 DISTANCE	Ship product directly to customers, where customer density allows	Weeks
	Reduce distance that shipments travel by shifting sourcing, production, and/or distribution locations	Months

None of the opportunities above will be unfamiliar to seasoned logisticians. The measures we recommend have all been identified and considered before—and then most likely were killed by objections from other functional leaders with different priorities. Now, though, in the face of the acute pain caused by disruption and associated cost inflation in global freight markets, logisticians must make the case again—in the most stark and forceful terms—for addressing the fundamental drivers of freight costs. This time, other functional leaders *have* to listen.

Note to shippers: look to pass on these extraordinary freight expenses. In today's market, with news of sky-high shipping rates landing on the front pages, your customers expect to pay more for freight. Fulfill those expectations.

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ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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