E-BOOK

KENCO

DRIVING CONTINUOUS IMPROVEMENT WITH DATA & ANALYTICS

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THE VALUE OF **CONTINUOUS IMPROVEMENT**

Perfect doesn't exist. Especially not in the world of business. There's always improvements to make and savings to be found.

This isn't meant to position perfect as the enemy of the good – because then nothing will get off the ground – rather, this sentiment is meant to foster a sense of continuous improvement.

Continuous improvement, or the idea that teams should make ongoing, incremental improvements over time, has gained traction for good reason. It pushes teams to regularly look for new opportunities to deliver better results and then act on them quickly. It results in more efforts to improve, more often, allowing teams to secure little wins that add up in big ways over time.

Continuous improvement has proven especially valuable in delivery of goods, where companies can regularly find ways to reduce their costs and improve the service their customers experience.

But just because these areas of improvement are readily available doesn't mean they're easy to come by. Clocking in these wins requires a deep understanding of shipping and customer data, plus knowledge around what changes can help reduce costs, save time, and improve service.

So if your team is ready to bring the value of continuous improvement to your shipping operations, where should you start? You've come to the right place. Read on for an in-depth look at the data and analytics needed to find cost savings and service improvements.

HOW TO

IMPROVE COSTS

Lowering costs is always a good thing. It can lead to increased margins, giving your team more revenue and more opportunities to reinvest in the business. Of course cutting costs is easier said than done, especially at a time when shipping needs have exploded.

Fortunately, improving costs around shipping is possible – it simply requires knowing where to look. To reap the full cost savings benefits of these continuous improvement efforts, it's also important to evaluate these areas regularly.

At the very least, you should evaluate on an annual basis, though some companies check in as often as quarterly. With a regularly defined cadence, you should be able to reduce costs by a few percentage points with each evaluation – though the exact figures will also depend on market changes.

With that in mind, let's explore what it takes when it comes to two areas that are ripe for cost savings: transportation and parcels.

CONTINUOUS COST IMPROVEMENT **IN TRANSPORTATION**

Improving costs in transportation starts by gathering baseline data to understand where your costs fall currently. This baseline data should include:

- Freight spend by mode
- Freight class
- Pallet quantity
- Average shipping distance
- Average shipment weight
- Quantity by weight breaks
- Delivered weight by state
- Origins and destinations
- Ship dates
- Carrier mix

Once you have this baseline view, you can then use it as a point of comparison for different scenarios. For example, if you change your carrier mix or shipment weights, how might that affect your costs?

In general, there are typically five areas to focus continuous improvement efforts that can help reduce transportation costs:

1. RATE OPTIMIZATION

What it is: Rate optimization focuses on ensuring shipments move with the lowest cost carrier every single time.

How to accomplish it: Achieving rate optimization requires a carrier agnostic approach, since it involves looking at all carrier options and selecting the lowest cost provider based on shipment information and origin/destination. The best way to approach rate optimization is with a dynamic routing guide that can ingest those data points and match them to the lowest cost carrier option.

2. LOAD CONSOLIDATION

What it is: Load consolidation increases the average load size of a shipment. If you use full truckload (FTL), you'll pay for the entire space even if you don't fill the truck, so consolidating loads can help reduce costs and even provide better rates.

How to accomplish it: Successful load consolidation when using a dedicated truckload requires gaining a clear, overarching view of upcoming shipments going out to better match loads based on common destination points and shipment timing. Proper parcel sizing can also help increase the average load size by allowing for more parcels to fit in a single truckload. Improved sizing requires automation tools like Box on Demand, which creates right-sized boxes for every order.

3. MODE OPTIMIZATION

What it is: Mode optimization is all about shifting between modes, including FTL, less than truckload (LTL), intermodal, spot, and dedicated, based on which option provides the most cost efficiency.

How to accomplish it: Mode optimization requires looking at all of the potential shipping options to compare both the pricing and any potential tradeoffs (e.g. in terms of timing). In general, mode optimization is very dependent on economic shifts, which makes understanding those trends important. For example, shifting from LTL to FTL previously yielded significant savings, but as truckload rates have increased, the savings from this type of shift have decreased.

4. DISTRIBUTION OPTIMIZATION

What it is: Distribution optimization (aka shipping optimization or route optimization) aims to make pickup and drop off more efficient by reducing mileage. In some cases, it's very much intertwined with load consolidation.

How to accomplish it: Optimizing distribution paths starts by understanding where shipments are going and the average distance per shipment. Looking at these points will often help identify a more efficient way to pick up parcels for shipping and drop them off at their end destination, which can reduce mileage (and, therefore, costs). Proper load consolidation can also help with distribution optimization, since packing more items going to similar destinations in a single load can reduce detours and stops along the shipping route.

5. NETWORK DESIGN

What it is: Network design ensures you have the right locations to serve your customers and to receive inbound shipments. It's all about optimizing the center of gravity for your business.

How to accomplish it: Evaluating network design starts by understanding where your customers are located as well as where your vendors are located. From there, you can run scenarios that show the impact on elements like freight rate based on moving your distribution center. For example, if your distribution center is in the Northeast, but your customers are nationwide, how would moving that distribution center to the Midwest impact transportation costs? A truly comprehensive network design study typically spans two or three months, but you can do a lighter study in a few weeks.

CONTINUOUS COST IMPROVEMENT **IN PARCELS**

Similar to transportation, continuous cost improvement in parcels starts by gathering baseline data to get a snapshot of your current state. There are countless data points you can get on a single package, and the data will be slightly different from each carrier. That said, the core data you typically need to establish a baseline and find improvement opportunities include:

- Package dimensions
- Package weight
- Delivery distance
- Delivery service level

With that data in hand, there are typically five areas to dig into that lead to surcharges and offer the most opportunities for continuous cost improvement in parcels:

In general, there are typically five areas to focus continuous improvement efforts that can help reduce parcel costs:

1. ADDITIONAL HANDLING AND OVER-SIZE SURCHARGE REDUCTION

What it is: Once upon a time, carriers would charge a simple rate based on the parcel weight and destination, but since the ecommerce boom, a lot has changed. Now, large items that might not weigh that much but do take up a lot of space in the truck get charged accordingly. As a result, parcel dimensions are the number one area for most companies to find savings.

How to accomplish it: The first step to reducing additional handling and oversize charges is to understand each carrier's rules, as having just an extra inch in any one area could end up adding a huge expense. Once you understand the rules for your carriers, you can then take steps to stay within them as much as possible. One of the best ways to reduce parcel size efficiently is with automation tools like Box on Demand, which creates right-sized box

2. WEIGHT-TO-CARRIER PRICE OPTIMIZATION

What it is: The physical weight of an item is not something you can easily control – the weight of the items that you sell is what it is. But different carriers and different delivery modes have different weight-based price models, so understanding those differences and adjusting your approach accordingly can lead to cost savings.

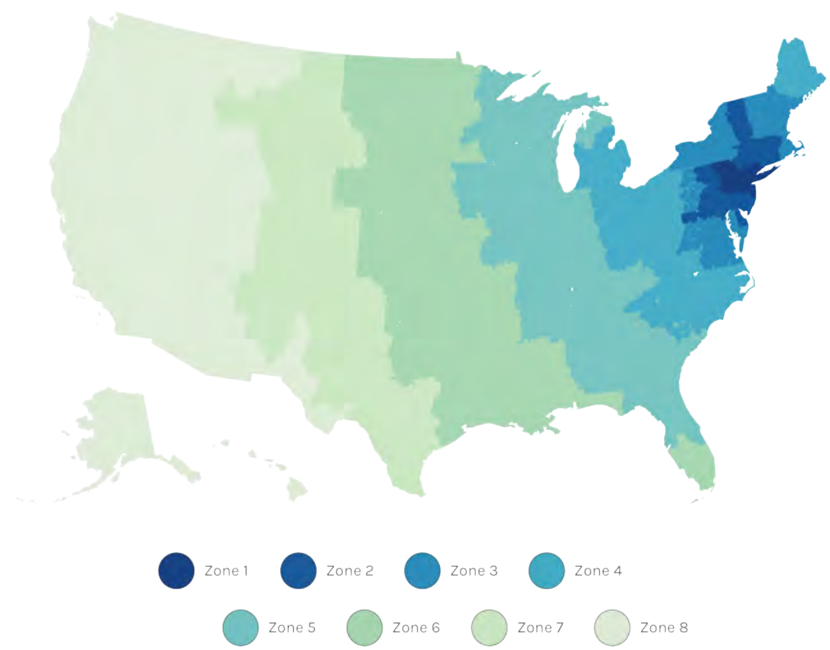
How to accomplish it: Once again, the first step here is to really understand the weight cut offs for different carriers and different shipping modes. You can then use that understanding to optimize which carriers and modes you use based on the weight of your items and their destination. For instance, in some cases it might make more sense to go with LTL, while in others it might make sense to do some load consolidation. Importantly, the optimal approach can differ even for the same weight products depending on where they are ultimately going, so it's critical to understand all of the nuances in how carriers price by weight so you can see the full picture of options.

Understand all of the nuances in how carriers price by weight so you can see the full picture of options.

3. ZONE OPTIMIZATION

What it is: The parcel world handles pricing based on zones, which essentially looks at the distance a parcel needs to travel from pickup to delivery. The standard zones range from two to eight, but shippers should aim to have an average zone of four to five. If the average is too low or too high, it typically skews costs because it means even though some parcels might travel extremely close, others are going extremely far. Zone optimization is very closely related to network optimization, since it ultimately comes back to distribution center location.

How to accomplish it: Optimizing your shipping zones requires understanding where your customers are located and where your distributors are located. From there, you can run an analysis to find the optimal location (or two) for your distribution center(s). For instance, if your distribution center is located on the West Coast but you end up shipping to the East Coast 85% of the time, that puts you in a high zone and will significantly increase costs. Perhaps moving your distribution center to the East Coast won't yield significant savings because you bring in products from China, but an analysis might find that moving to the central US can create a better balance on both ends and lead to a huge cost reduction as a result.



The standard zones range from two to eight, but shippers should aim to have an average zone of four to five.

4. DELIVERY SERVICE LEVEL AUDIT

What it is: Each carrier offers different service levels for delivery, such as "two-day" and "ground" shipping options. These service levels can impact delivery times and guarantees, and they also cost different amounts. Auditing which service levels you use to ensure you're not arbitrarily overspending, and then rate-shopping carriers based on what you do need, can lead to notable savings.

How to accomplish it: Most companies find incredible low hanging fruit savings simply by auditing their current approach to shipping. That's because you'll often find that certain teams use expensive services like next-day air unnecessarily. Or companies might pay up to 3x higher for two- or three-day air when ground service can get there just as quickly. This typically occurs with sales teams sending out samples, and unless there's a specific need for something to get there immediately, there's usually not a strong case to use a service like next-day air. It gets even more costly when companies use a carrier's "early AM" service, which is a non-discounted service that typically guarantees delivery by 8 AM. However, if no one is there to accept the delivery, it can keep getting pushed and additional charges get tacked on.

Overall, having the right systems to audit how packages currently get shipped and identify the minimum service level to still meet business rules (e.g. a day-definite service that will arrive within three days) can end up saving millions of dollars in parcel costs. Add in support for rate shopping carriers once you do identify the right service level, and the savings only increase from there.

5. CARRIER DIVERSIFICATION

What it is: Traditional, national parcel carriers would previously offer volume-based discounts to shippers, but that has changed following price hikes during the pandemic. This means that even for high volume shippers, it now pays to diversify carriers, especially when it comes to looking at regional carriers.

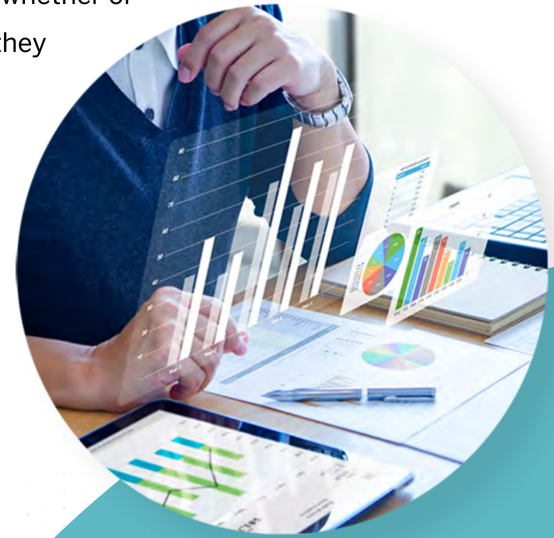
How to accomplish it: With volume-based discounts far less common, it's now a matter of rate shopping based on different circumstances (like parcel weight or dimensions or even carrier capacity) to find the most cost-effective options. And in most cases, this will end up being a mix of carriers, including national and regional. Overall, having relationships with multiple carriers is also helpful during times like peak season when demand is high and capacity is low. All of that said, as you diversify carriers, it's important to be mindful of your parcel agreements with existing partners, as many agreements have contractual minimums and not meeting those minimums can still trigger a price increase (despite the move away from volume-based discounts).two or three months, but you can do a lighter study in a few weeks.

It pays to diversify carriers, especially when it comes to looking at regional carriers.

CONTINUOUS
COST IMPROVEMENT
IN SERVICE

The other area in shipping that's always ripe for improvement is service. Improving service starts by knowing your customers and what's important to them.

There are numerous factors to consider, all of which can affect the level of service your customers experience and should ultimately impact your carrier mix. For example, do they value faster shipping? Or maybe they care about whether or not their packages get delivered by a national carrier with a brand they know? Let's explore how these two scenarios play out.



In general, there are typically four ways to focus continuous improvement efforts that can help improve service:

1. SHIPPING SPEED

If your customers care most about faster shipping, then you need to take a deep look into your carrier mix, including how quickly you can secure pickup times and what each carrier's routes look like.

For example, the West Coast is often heavily congested. This means pickup times from national carriers might be more limited and prices more expensive. In these cases, you might find you can switch to a regional carrier for just the West Coast that has more capacity and lower costs – resulting in faster deliveries for your customers and lower costs for you – while still using the national carriers for deliveries outside the West Coast.

This sounds like a win-win – and it is – as long as your customers care more about when their package gets delivered (that it gets there when it's supposed to and that it's intact) than who delivers it. Although this might sound obvious, people are often conditioned to expect national carriers and some might question the integrity of what's in their box if it's delivered by a brand they don't know. Understanding what matters from this perspective comes down to knowing your customers and, in some cases, the price of goods sold.

2. NAME-BRAND DELIVERY

On the other hand, some customers – especially those shopping from new companies and/or purchasing expensive products – do care about the company that delivers their product, and they expect it to be a national carrier whose brand they know.

In these cases, it typically does make sense to continue working exclusively with national carriers, even if it ends up costing slightly more, because that's what your customers care about.

If your company is first launching, you might also start off exclusively with a national carrier to put your customers at ease and then, as your brand becomes more established, you might look to diversify your mix to optimize prices – all with the aim of maintaining the same great service you established from the beginning.

3. A HYBRID APPROACH

Another approach to maintain service expectations without increasing costs unnecessarily is to diversify carriers based on shipping options. Perhaps you stick with a national carrier and/or a higher delivery service level for customers who pay for expedited shipping but do more rate shopping across carriers for customers that select free shipping at checkout.

Introducing this mixed approach can help balance customer expectations and costs, and it can even end up turning shipping upcharges into a revenue stream (if the cost to ship is slightly less than the upcharge).

Of course optimizing both experience and costs in this way requires a deep understanding of your customers, your costs, and the shipping options available to you since it is a highly customized and nuanced approach.

4. ENLISTING AN EXPERT PARTNER TO DRIVE CONTINUOUS IMPROVE-MENT

Driving continuous improvement in terms of transportation and parcel costs as well as service can yield incredible results – such as significant cost savings and increased operational efficiency. But only when you know where to look.

Realizing the full potential of these types of continuous improvement efforts requires a deep understanding of the data and analytics behind transportation, parcel, and customer demands. And all of those data points are extremely nuanced and constantly in flux.

Achieving the maximum results also requires a dedicated analytics team that can conduct a thorough analysis without getting tied down in the trenches of day-to-day operations, which can be very difficult to do within a fast-moving business.

As a result, enlisting an expert partner to drive continuous improvement can make all the difference. Specifically, a partner like a 3PL that lives and breathes these data points on a daily basis and has a macro view of trends across the entire industry can provide the necessary expertise along with a strong analytics arm to deliver meaningful improve-ments time and again.

And with a strong partnership, continuous improvement efforts that yield cost savings as frequently as once a quarter are well within reach. It's simply a matter of having that expertise on your side, taking a look at the data and analytics, and being open to making fast changes based on what that data shows.

SPEAK TO AN EXPERT

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